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# **PROGRAM EVALUATION**

LEGISLATIVE RESEARCH COMMISSION  
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## **UNIVERSITY AFFILIATED AND NON-AFFILIATED CORPORATIONS**

**Research Report No. 199**  
**Legislative Research Commission**

**Frankfort, Kentucky**

**Program Review & Investigations Committee**

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# UNIVERSITY AFFILIATED AND NON-AFFILIATED CORPORATIONS

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Research Report No. 199

*Legislative Research Commission  
Frankfort, Kentucky  
September, 1983*





## FOREWORD

The Program Review and Investigations Committee, at its August, 1981 meeting, voted to study the purposes, policies and operational procedures of the state's university foundations and to review their use of public resources. The report which follows is the result of that study.

Our appreciation is extended to the staffs of the Council on Higher Education and the Department of Finance for their assistance in this undertaking. Special appreciation is extended to the administrative staffs of the universities for providing working space, access to information and documents, and an atmosphere of openness and cooperation.

The study was conducted by Tanya Gritz, Sheila Mason, Brent Neiser and Sarah Hayes, and legal consultation was provided by Ethel Alston. The manuscript was prepared by Jeanie Privett and Esther Robison.

Vic Hellard, Jr.  
Director

The Capitol  
Frankfort, Kentucky  
August, 1983

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## TABLE OF CONTENTS

|   |     |
|---|-----|
| FOREWORD .....  | i   |
| TABLE OF CONTENTS .....   | iii |
| LIST OF TABLES .....  | iii |
| SUMMARY .....   | v   |
| INTRODUCTION .....  | vii |
| CHAPTER I. DEFINITION AND PURPOSE OF FOUNDATIONS.....             | 1   |
| Purpose of University Corporations .....                          | 1   |
| CHAPTER II. OPERATION OF UNIVERSITY CORPORATIONS .....            | 9   |
| Sources of Revenue .....  | 9   |
| Expenditures .....  | 20  |
| Governing Structure and Control .....                             | 20  |
| Financial Relationships With Universities .....                   | 26  |
| Audits and Financial Statements .....                             | 26  |
| Public Resources in Private Corporations .....                    | 27  |
| Auxiliary Operations .....  | 27  |
| CHAPTER III. LEGAL STATUS OF UNIVERSITY CORPORATIONS .....        | 29  |
| Kentucky Non-Profit Corporation Act .....                         | 29  |
| Governing Bodies and Management of the Corporation .....          | 30  |
| Books and Records of Private Foundations .....                    | 31  |
| Qualifications for Tax Exempt Status of Private Foundations ..... | 31  |
| Articles of Incorporation .....                                   | 32  |
| Reporting and Standards .....                                     | 32  |
| CHAPTER IV. CONCLUSIONS AND RECOMMENDATIONS .....                 | 35  |
| APPENDIX:   |     |
| Eastern Kentucky University .....                                 | 39  |
| Kentucky State University .....                                   | 50  |
| Morehead State University .....                                   | 57  |
| Murray State University .....                                     | 60  |
| Northern Kentucky University .....                                | 68  |
| University of Kentucky .....                                      | 77  |
| University of Louisville .....                                    | 89  |
| Western Kentucky University .....                                 | 96  |

## LIST OF TABLES

|   |    |
|---|----|
| 1. University Affiliated and Related Corporations.....  | 9  |
| 2. Fund Source to University Corporation, FY 1981 ..... | 12 |
| 3. Summary of University Corporation Organization ..... | 23 |



## SUMMARY

The Legislative Program Review and Investigations Committee voted in August, 1981, to review university foundations and related organizations to:

1. review the purposes, policies and operational procedures of the university foundation structure as it relates to the university and the state; and
2. review the use of public resources within the private foundations.

The forty-five university corporations, of which university foundations are just a part, are varied in structure, purpose and method of operation. This review divides the corporations into three groups: those that are university affiliated corporations according to the definition in HB 622, passed by the 1982 General Assembly; those that are related to a university but not defined as affiliated corporations; and unrelated organizations.

In summary, HB 622: authorizes the formation of affiliated corporations and defines the relationship with a host university as being one over which the university has effective control; requires the corporation to reimburse the university for expenses incurred in its operation; requires corporations to account for and expend public funds according to the same principles of accounting and purchasing as used by the host university; requires fund definitions consistent with those of the American Institute of Certified Public Accountants; requires auditing of corporation funds; and makes compliance with the requirements optional on the part of the host university.

After analyzing the purposes of the first two groups of corporations, it would seem that in most cases the same or a similar purpose could be achieved by providing that function within the university framework. Consequently, it appears that most university corporations are created essentially to give identity to a specific function and in some cases to allow more timely and liberal expenditure of certain funds. However, certain university corporations serve a unique and specific purpose and cannot be characterized as typical "university foundations." Primarily these include medical-school-related foundations.

Prior to the enactment of HB 622, the legal status or regulation of foundations was indirect and controlled primarily by KRS Chapter 273, the non-profit corporation chapter. The unique relationship of university corporations to the university as a state agency was not addressed in that chapter, and therefore little formal control or oversight existed. This circumstance has brought to the forefront the question of oversight of how funds are expended in a university corporation, for what purposes, and according to whose authority.

Chapter IV of this study is a summation of critical issues and conclusions that support the recommendations included in that chapter and listed below. The recommendations intend to provide for clear oversight and accountability of both the affiliated corporations and university relations with non-affiliated corporations.

## Recommendations

1. There is overlap of resources of universities and affiliated corporations; moreover, HB 622 does not specifically address capital construction activities of affiliated corporations. Therefore, legislation should be introduced to require budgeted public funds of university affiliated corporations to be subject to prior review by the Finance and Administration Cabinet and the Legislative Committee on Appropriations and Revenue.

The Committee voted to reject Recommendation #1 and replace it with the following:

1. All affiliated corporations should be required to file annual financial statements in accordance with guidelines established by the Council on Higher Education. All funds deposited with affiliated corporations should be excluded from the appropriation process. Where affiliated corporations provide services for an institution that are traditionally performed by the institution, state policies and procedures should govern the expenditure and use of those funds.
2. To provide consistent treatment and complete oversight by appropriate review bodies, legislation should be introduced specifying that affiliated corporations must comply with the provisions of HB 622.
3. Legislation or regulations should be introduced requiring that all university and affiliated corporation dealings with university corporations that are not affiliated corporations should be on the basis of contract, specifying services received and rendered and appropriate compensation, as would be done between any private entity and public agency.

## INTRODUCTION

In August, 1981, the Program Review and Investigations Committee voted to review university foundations and related organizations. There are some forty-five private organizations that are related to public universities. They are under varying degrees of control by the universities to which they are attached. These organizations are commonly called private foundations or affiliated corporations. They have come under increasing public scrutiny, since many of them use public resources in their operations, while remaining exempt, because privately incorporated, from state control, audit, or oversight.

The purpose of this study is to

- (1) review the purposes, policies and operational procedures of the university foundation structure as it relates to the university and the state, and
- (2) review the use of public resources within the private foundations.

The present study does not attempt to actually audit foundation receipts and expenditures, although audits of the foundations were reviewed. Therefore, no evidence of specific expenditures or accounting of monies is provided; the category of receipt and expenditure is discussed, however, and the framework within which foundations operate is evaluated.

The first three chapters provide descriptive background on the purposes and functions of foundations, their structure and characteristics, and legal parameters within which they operate. Chapter IV provides analysis and recommendations for further regulation. Each of the university corporations is described in some detail in the Appendix.





## CHAPTER I

### DEFINITION AND PURPOSE OF FOUNDATIONS

For the purposes of this study the term “university corporation” is used, for lack of a better general term, to mean corporations, including affiliated corporations, as well as the other organizations generally perceived as being related to the university and organized consistent with section 501(c)(3) of the Internal Revenue Code (permitting tax-exempt status).

These organizations can be divided into three groups:

1. affiliated corporations, as defined in HB 622;
2. organizations that have unique relationships with a university but do not fully meet the definition of affiliated corporation with respect to control by a university; and
3. unrelated organizations, over which the university exercises no control, and whose operations involve no state resources.

“Affiliated corporation means a corporate entity which is not a public agency and which is organized pursuant to the provisions of KRS Chapter 273 over which an institution exercises effective control by means of appointments to its board of directors, and which could not exist or effectively operate in the absence of substantial assistance from an institution,” (HB 622). A private foundation, as defined in the Internal Revenue Code, Section 309, is a tax-exempt organization which is operated exclusively for scientific, literary, and educational purposes, except organizations which (1) are organized and operated exclusively for the benefit of a public university; (2) receive over one-third of their funds from gifts, grants, membership fees, and gross sales receipts (not including unrelated income); and (3) are organized to do (1) and (2), and are supervised and controlled by an organization as described in (1) and (2). Most of the organizations treated here, then, are not private foundations.

It would be disadvantageous for those organizations studied to be classified as private foundations, since private foundations may be subject to income taxes on their investment income. Further, the amount a person may donate on a tax deductible basis is reduced from fifty percent, as is the case when donating to a tax-exempt 501(c)(3) organization, to only twenty percent of gross income when donating to a private foundation.

#### Purpose of University Corporations

University corporations traditionally perform several functions, including fund raising, alumni operations, loan and scholarship programs, and the provision of gifts to the universities to supplement state appropriations. Frequently, university corporations are organized to perform such special functions as operating intercollegiate athletics, providing

a conduit for research, providing medical practice plans, providing medical bill collection services, and operating specific government grants.

University corporations are incorporated as private non-profit corporations, in order to provide a clear distinction between state funds and private funds available to the university. Primarily the state funds in universities include general fund appropriations as well as bond proceeds, tuition fees, fees for room and board, incidental fees, and fees generated from the primary missions of the university: teaching, research, and public service. These funds are to be used for the general and specific operation of the university or for state debt retirement. State funds flow to and are held by the state treasurer. Such funds are expended according to state policies and procedures.

That process is in contrast with those of private corporations, which may hold funds received either for specific purposes or to be appropriated by the board of directors, in accordance with the purposes of the private corporations. Funds flowing to the private corporation are exempt from being transferred to the state treasurer, and are instead held locally by each university corporation.

The rationale for keeping certain funds separate from the general operational funds covers a wide territory. The most common reason is to promote fund raising and gift giving.

The following sections are a discussion of the justifying purposes and primary functions of university corporations. The sections also include a comment on the viability of those purposes.

#### **Private Gifts and Contracts**

The establishment of university corporations is justified as providing a vehicle by which private gifts and contracts can be received and held separately from state funds. Donations could be severely reduced if donors were not assured that gifts were going to be held at the university by university personnel, and not used to replace state appropriations. If those receipts were to flow to the treasury, a donor might fear that his gift could lose its identity, that it might be used for general operations, and might even result in reducing the state appropriation.

In fact, however, KRS 41.290 states that private funds or contributions received by state supported institutions of higher learning need not flow to the state treasury. Those funds may be retained and still accounted for within the university's accounts. Consequently, a perceived fear of the donor and university does not, in fact, appear to be necessary, as current statute allows for university control of private monies. (See OAG 82-520.)

Since current statutes clearly provide that universities are not required to transfer these funds to the treasury, a university is entitled to hold such funds and may identify them in a separate restricted account. KRS 41.290 does not specifically identify private contracts as private funds; however, the American Institute of Certified Public Accountants (AICPA) audit guide for colleges and universities does group private grants and contracts with gifts. The AICPA guide is used by the Kentucky State Auditor of Public Accounts.

The need to keep gifts and other private funds outside the university in order to separate them from public monies does not, in fact, appear to be a justified reason for the existence of university corporations. However, public perception may be stronger than fact.

### **Expenditure Flexibility**

Administrative and legislative controls have hampered the discretion of universities with respect to certain expenditures. Some university corporations are formed, consequently, to allow greater flexibility for expenditures. Most frequently mentioned examples are travel restrictions, printing procedures, and entertainment. A university corporation as a private body may spend its funds for these items in a more expedient manner. The university, on the other hand, has the same restrictions in expending funds that any other state agency has. In the case of travel, for example, after-the-fact reimbursement and low allowances for out-of-state travel can impose a hardship on travelling staff. (This applies to all state employees.) University corporations are a means of avoiding that hardship.

However, there is some flexibility in the expenditures permitted state universities through their imprest cash accounts. The following are permitted:

- purchase of art, books, maps, and technical material, and payment of visiting professors, speakers, and performing artists;
- purchases up to \$5,000;
- payments for expenditures authorized by local, federal, and private grants and contracts;
- payment to students for loans, scholarships, awards (up to \$1,000 per individual);
- faculty, staff, recruitment expenses;
- in-state travel;
- honoraria (up to \$1,000); and
- one-time personal services (up to \$500).

Again, private funds held by the university may be spent according to the bona fide specifications of the donor and contractor, even if that method conflicts with state procedure. Therefore, it does not appear necessary to hold private funds in a university corporation in order to avoid restrictive state expenditure procedures.

### **Auxiliary Operations**

The maintaining of auxiliary operations (e.g., bookstore, laundry, dormitories) could be a justification for having a private university corporation. However, there is no evidence that this is a compelling purpose. Several universities operate such services within the university as well. It appears that when an auxiliary operation is attached to a university corporation, the reason is to provide additional funds for that university corporation; then, through the corporation, the revenues generated are used for the benefit of the university. But operations are not a determinant purpose for university corporations.

The 1981 Price-Waterhouse study, *A Study of the Management Practices and Procedures of Kentucky's Public Universities and Colleges, Phase I*, recommended that all

auxiliary operations be conducted within a university, since there is no compelling reason to operate them outside the university. Further, the question might be raised whether the income generated by these auxiliary operations could be considered "unrelated business income," as defined in the IRC Section 513; that is, that income may be taxable income, as defined in the IRC Section 512. The question of taxability would not apply if the university itself operated the auxiliary function for the benefit of students, faculty, staff, and patients, [IRC Section 513(a)(2)].

### **Public Grant and Contract Funds**

University corporations are sometimes justified as vehicles through which government grants and contracts may be administered separately from other university funds, and be spent outside the state purchasing regulations.

Kentucky's purchasing procedures pose certain problems for universities engaged in research. The time constraints involved with purchasing computers, printing, bidding for equipment, and other expenditure requirements under the state procurement system may prevent the timely execution of the contract terms. University corporations were created to provide a more expeditious vehicle through which to acquire equipment necessary in research.

However, House Bill 622 addresses this problem by allowing purchasing authority under the Model Procurement Code to be delegated to the universities by the Finance and Administration Cabinet. As a result, the need to expedite purchasing and expenditures in the process of research is no longer a justification for separate university corporations for those universities which choose to take advantage of the delegated purchasing provision in HB 622.

Government grant and contract funds received by a university, or its affiliated corporation, according to the definition of the American Institute of Certified Public Accountants (AICPA) audit guide, are public funds. Therefore, based on OAG 82-521, these funds are to be handled in one of two ways, at the election of the university: (1) if the university elects to be subject to the provision of HB 622, the funds may remain at the university and be accounted for in accordance with HB 622; or (2) if the university or its affiliated corporation does not wish to opt for the provisions of HB 622, then these funds must flow to the treasury upon receipt, pursuant to KRS 41.070. In the event the funds come to the Treasury, the grant or contract may still retain its restricted nature and thus be spent only according to the terms of the contract. Expenditures would only be made according to the provisions of KRS Chapter 45 and 45A as well, or other applicable statutes. These funds should not be treated as private gifts and contracts.

### **Accountability of Self-Supporting Operations**

In some cases university corporations have very specific purposes and are thus justified as providing identity to a particular program and keeping all funds used in the operation of that program separate. In this way a program can be made clearly accountable for all expenditures. Subsidies of such programs can be more clearly shown to exist or not

exist. For example, the University of Kentucky Athletic Association, Inc. is a respository for all and only those funds that are to be used for the major intercollegiate athletic activities. The University of Louisville Hospital, Inc. is another example of a framework designed to provide accountability. It would be possible, however, to achieve similar results simply through accounting design within the university's overall organization. Moreover, the Board of Directors of affiliated departments could serve to control the use of the funds and provide management accountability, as well as accounting accountability.

### **Non-Affiliated and Special Purpose Foundations**

There is another group of university corporations which either are not identified as affiliated corporations relative to HB 622, or which have special purposes. These organizations have unique relationships with the universities and narrowly focused purposes only tangentially related to the primary mission of the university. For those reasons, such university corporations may be justified.

**Medical-School-Related Foundations.** A unique purpose for a university corporation is to operate a teaching hospital. The University of Louisville has established its teaching hospital as an affiliated corporation. For several years there was probably no real reason for the hospital to remain a separate foundation; when the university acquired the hospital, it was operated within the university and not through the foundation. A hospital foundation was created by the University of Louisville for the purpose of operating the hospital in 1977, but it in fact did not do so until 1981. At this point responsibility for the hospital operation was officially transferred; the foundation then contracted with outside management firms to operate it. It was hoped that since the hospital had been operating on a deficit basis and was perceived solely as a charity hospital, by operating it privately, more physicians would be willing to place private paying patients in the university hospital and therefore help to bring it closer to a break-even situation.

Since the University of Kentucky operates its hospital within the university and the University of Louisville has done so in the past, there appears to be little compelling reason to operate a teaching hospital as a separate foundation.

Physician practice plans are also a case of special purpose justification for a university corporation framework. The universities' medical schools have associated physician salary supplement plans which are operated through separate corporations. In both cases the practice plans operate exclusively for university physicians. All incoming physicians/faculty must participate in the plan.

The university corporations which operate the practice plans, Kentucky Medical Services Foundation at the University of Kentucky (KMSF), the Fund for the Advancement of Education and Research in the University of Kentucky Medical Center (this organization is a somewhat different type of organization from the other two listed, and is described later), and the University of Louisville Medical School Fund collect physician fees either directly (the Fund and KMSF at the University of Kentucky) or indirectly through each physician (Medical School Fund at the University of Louisville). Those funds are used to

supplement physicians' salaries and to enhance the hospital plant, equipment and programs.

Since these plans deal with the collection of fees from individuals practicing on non-teaching time, in the case of Kentucky Medical Services Foundation and the Medical School Fund (using university equipment for which compensation is made), there probably is some justification for these university corporations as a way of allowing the physicians clearer control over their own earnings. (For a further explanation of how the funds flow in these university corporations, see the Appendix.)

The Fund for the Advancement of Education and Research at the University of Kentucky Medical Center was the original operator of the physicians' practice plan at the University of Kentucky. The Fund includes collections for dental services, student health services, and the remaining portion of the medical services that were not transferred to the Kentucky Medical Services Foundation. The Fund operated (and continues to operate for some faculty) under the philosophy that all revenue generated by dental and medical faculty should return to the university corporation for the benefit of the university.

The University of Kentucky's practice plan (KMSF) and the Medical School Fund at the University of Louisville now operate under the philosophy that part of the physicians' income is not public revenue and should therefore be retained by the physicians. Actually the new operational procedure is probably more a result of a practical need than for any other reason. In order to keep quality physicians as teachers, it became obvious that their compensation would have to be more competitive with that of private practice. Since the universities are limited in their ability to pay higher salaries, the plans provided a means to allow physicians' pay to be based on their own productivity, yet still generate revenue for the hospital.

The two medical schools have two other medical-school-related university corporations. In the case of the University of Kentucky, Health Care Collection Services was created by the university and collects only delinquent bills. The board of directors is controlled by the university, and has a relatively exclusive client relationship. However, this corporation operates independently of the university on a cost basis—all collections above cost are returned to the university. This organization is considered an affiliated corporation.

The other fee collection organization, at the University of Louisville, is not considered an affiliated corporation. The Clinical Services Association, Inc., is incorporated in Delaware and is not controlled directly by the university board of trustees. However, the board is made up of university staff. This bill collecting organization collects fees of physicians in their teaching capacity at the university. The fees are then remitted annually to the University of Louisville Foundation.

**Alumni Associations.** Alumni associations are sometimes operated as private organizations. These groups do not have clear educational functions. Socializing appears to be their primary activity, although it is anticipated that their functions will encourage alumni to donate to the university. The benefit offered by alumni associations is probably best achieved by an entity outside the university accounts.

In addition to the medical-school-related university corporations, certain other groups are not affiliated corporations, but have unique relationships with the universities and may employ university resources in their operations.

**Credit Unions.** Credit unions exist at three universities (see Table 1). These boards are not controlled by the universities. However, the credit unions have a unique clientele. They serve only university personnel. Since the decision to serve that particular group is a decision made as a provision of incorporation and not one made by the university, and since university personnel are free to select banking services from other providers, that relationship could be viewed as a private one.

However, again, university resources are used in the operation of the credit unions. In all cases the university provides office space for the operation of the credit union. In one case the use of the space is reimbursed in kind through the provision of information services. In the other cases no compensation is made.

**Student Publications.** Various student publications are produced through incorporated organizations. These publications provide an educational experience and are therefore an integral part of the education process for some students. The sales of the productions generate revenue (at the University of Kentucky the *Kernel* is provided at no charge), which generally is used to operate and provide equipment for the production of the publication. Although the organizations are separate, the funds are generally managed by the university through an agency account (this is not the case at the University of Kentucky), and the physical resources are used in providing an educational experience. In return a publication of some kind (newspaper, magazine) is produced for the benefit of the university community.





## CHAPTER II

### OPERATION OF UNIVERSITY CORPORATIONS

Among the eight state-supported universities there are some forty-five foundations, affiliated corporations, and other associations in some way related to a university (not including fraternities and sororities). Table 1 is a listing of all such organizations identified.

The purpose or primary function of these organizations varies widely. That information is also delineated briefly in Table 1. The first group of organizations to be discussed are those that have been identified as affiliated corporations by a university presidents task force on the interpretation of House Bill 622, as well as those groups that are related to, but not actually controlled by, a university. The following chapter characterizes these organizations according to sources of revenue, expenditures, governance, fund flows, reporting and presence of public resources.

#### Sources of Revenue

Receipts to affiliated corporations come from a wide range of sources. Table 2 classifies receipts by category. In no case do any of the university corporations receive direct state appropriations. The Tobacco Research Institute does receive an appropriation; however, it is not a separately incorporated body, but a department within the University of Kentucky.

In many cases university property, which is also state property, personnel, or equipment is used by the university corporations in some way. In some cases the use is described and conducted on the basis of a contract and compensation is provided, and in some cases the use simply involves an understanding with no compensation provided, since the university corporation operates for the benefit of the university.

TABLE 1

#### UNIVERSITY AFFILIATED AND RELATED CORPORATIONS

| UNIVERSITY CORPORATION                        | GENERAL PURPOSE                  |
|---|----------------------------------|
| Eastern Kentucky University                   |                                  |
| *Eastern Kentucky University Foundation, Inc. | generally support university     |
| Eastern Kentucky Alumni Association           | promote alumni activities        |
| Eastern Kentucky Student Aid Society, Inc.    | provide temporary or emergency   |
|   | financial assistance to students |
| Arlington Association, Inc.                   | alumni, faculty and staff club   |

|  |   |
|--|---|
| Kentucky State University  |   |
| *Kentucky State University Foundation, Inc.                      | generally support university  |
| Kentucky State University Alumni Association                     | promote alumni activities   |
| Morehead State University  |   |
| *Morehead State University Foundation, Inc.                      | generally support university  |
| Morehead Alumni Foundation, Inc.                                 | property transfer   |
| Morehead State University Alumni Association                     | promote alumni activities   |
| Murray State University  |   |
| *Murray State University Foundation                              | generally support activities  |
| Murray State University Alumni Association                       | promote alumni activities   |
| Murray State University Credit Union, Inc.                       | provide credit union services to<br>university staff, faculty   |
| Northern Kentucky University                                     |   |
| *Northern Kentucky University Foundation, Inc.                   | generally support university  |
| Northern Kentucky Alumni Association                             | promote alumni activities   |
| University of Kentucky   |   |
| *University of Kentucky Research Foundation, Inc.                | contract agent for research   |
|  | grants and contracts  |
| *University of Kentucky Athletic Association, Inc.               | conduct intercollegiate athletics   |
| *The Fund for the Advancement of Education                       | receive practice income of<br>dentists, and research at the<br>University of Kentucky student<br>health service and some<br>Medical Center, Inc. medical<br>doctors |
| *Health Care Collection Service, Inc.                            | collect delinquent bills for<br>University hospital and<br>affiliated corporations  |
| *McDowell Cancer Network, Inc.                                   | education and research<br>regarding cancer treatment  |
| *University of Kentucky Business Partnership<br>Foundation, Inc. | collect gifts for College of<br>Commerce  |
| Tobacco and Health Research Institute                            | department within UK to receive<br>grant of Tobacco Research<br>Trust Fund  |
| University of Kentucky Alumni Association, Inc.                  | promote alumni activities   |
| Kentucky Medical Services Foundation, Inc.                       | private physician practice plan<br>to<br>provide supplemental income<br>alumni, faculty and staff club  |
| Spindletop Hall, Inc.  | private group organized to<br>collect funds for a cancer<br>research facility   |
| McDowell Foundation, Inc.  | student newspaper   |
| Kernel Press, Inc.   | provide credit union services to<br>university faculty and staff  |
| University of Kentucky Credit Union, Inc.                        | building to accommodate<br>families of Lexington hospital<br>patients, leased building from<br>UK by private group  |
| Hospitality House of Lexington, Inc.                             |   |

## University of Louisville

\*University of Louisville Foundation, Inc.

\*University of Louisville Hospital, Inc.

\*Medical School Fund, Inc.

University of Louisville Industrial Research, Inc.

Louisville Cardinal, Inc.

RODIN, Inc.

Minerva, Inc.

Louisville Review, Inc.

Clinical Service Association, Inc.

University of Louisville Associates, Inc.

Law Alumni Foundation, Inc.

Speed Alumni Foundation, Inc.

L Club Foundation, Inc.

wide range of accounts to  
support U of L activities  
operate teaching hospital  
physician's private practice plan  
to supplement physician  
income

withdrew charter  
student publication  
student publication  
student publication  
student publication  
collect physician fees in teaching  
capacity  
alumni group  
alumni group  
alumni group (non-functioning)  
alumni group

## Western Kentucky University

\*College Heights Foundation, Inc.

Alumni Assoc. of Western Kentucky University

Hilltopper Hundred Club, Inc.

Western Kentucky University Credit Union, Inc.

generally support activities  
promote alumni activities  
raise funds for intercollegiate  
activities  
provide credit union services to  
university faculty and staff

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\*Designated as affiliated corporations in the Preliminary Report from the task force on  
interpretation of House Bill 622.

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TABLE 2

FUND SOURCE TO UNIVERSITY CORPORATION  
FY 1981

| University/Corporation Appropriation       | State | Student Fees | Administrative Services Provided                         | Office Space Provided                            | Gross Income Generated From State Property or Auxiliary Operation               | Research Grants/Contracts | Private Gifts, Etc.        |
|--|-------|--------------|--|--|---|---------------------------|----------------------------|
| Eastern Kentucky Univ.                     |       |              |  |  |   |                           |                            |
| EKU Foundation, Inc.                       | 0     | 0            | \$5,000  | Space is provided for auxiliary operations       | \$625,566* (includes receipts from University Inn) (includes interest earnings) | 0                         | \$761,078                  |
| Eastern Kentucky Alumni Association        |       |              |  |  |   |                           |                            |
|  |       |              |  | Operated as agency account within the university |   |                           |                            |
| Eastern Kentucky Student Aid Society, Inc. | 0     | 0            | Administrative services provided by the university       | Space is provided by the university              | 0   | 0                         | \$ 63,000 (loanable funds) |
| Arlington Association, Inc.                | 0     | 0            | 0  | 0  | 0   | 0                         | dues                       |
| Kentucky State University                  |       |              |  |  |   |                           |                            |
| KSU Foundation, Inc.                       | 0     | 0            | partial administrative services paid by university \$389 | Space is provided by university \$389            | 0   | \$59,842                  | \$108,305                  |
| KSU Alumni Assoc.                          | 0     | 0            | operated outside university                              |  | 0   | 0                         | dues                       |

\* See APPENDIX for details.

TABLE 2, continued

| University/Foundation                   | State Appropriation | Student Fees | Administrative Services Provided                           | Office Space Provided                                 | Gross Income Generated From State Property or Auxiliary Operation | Research Grants/Contracts | Private Gifts, Etc. |
|---|---------------------|--------------|--|---|---|---------------------------|---------------------|
| <u>Morehead State University</u>        |                     |              |  |   |   |                           |                     |
| MSU Foundation, Inc.                    | 0                   | 0            | Compensation made for these services. Amount not Available |   | 0   | 0                         | \$267,887           |
| Morehead Alumni Foundation, Inc.        | 0                   |              | Inactive   |   |   |                           |                     |
| Eagle Athletic Foundation, Inc.         |                     |              | Dissolved in September, 1981                               |   |   |                           |                     |
| Morehead State University Alumni Assoc. |                     |              |  |   |   |                           |                     |
|   |                     |              | Operated as agency account within university               |   |   |                           |                     |
| <u>Murray State University</u>          |                     |              |  |   |   |                           |                     |
| MSU Foundation, Inc.                    | 0                   | 0            | \$50,000   | space provided by university; \$40,000 bookstore rent | \$227,000 <sup>1</sup> bookstore                                  | \$2,000,000               | (includes interest) |
| MSU Alumni Association                  | 0                   | 0            | Operated within university budget.                         | space provided by university                          | 0   | 0                         | \$87,000            |
| Murray State Credit Union, Inc.         | 0                   | 0            | 0  | space provided by university                          | 0   | 0                         | 0                   |

<sup>1</sup>Funds generated to be used for any purpose of foundation.

TABLE 2, continued

| University/Foundation   | State Appropriation | Student Fees | Administrative Services Provided                        | Office Space Provided  | Gross Income Generated From State Property or Auxiliary Operation | Research Grants/Contracts | Private Gifts, Etc. |
|---|---------------------|--------------|---|--|---|---------------------------|---------------------|
| Northern Kentucky University  |                     |              |   |  |   |                           |                     |
| NKU Foundation, Inc.  | 0                   | 0            | administrative services provided by university \$22,458 | aux. oper. reimbursed (\$4,000) space prov. \$64,651 (vending for operations machines) | \$23,150 (rental income athletic houses)                          | 0                         | \$142,010           |
| NKU Alumni Association  |                     |              | Operated as agency account within the university        |  |   |                           |                     |
| University of Kentucky  |                     |              |   |  |   |                           |                     |
| UK Research Foundation, Inc.  | 0                   | 0            | reimbursed by foundation \$3,000,000                    | reimbursed by foundation   | 0   | \$32,000,000              | \$450,000           |
| UK Athletic Association, Inc.   | 0                   | \$491,000    | budgeting purchasing auditing                           | \$245,686*   | \$7,588,851 <sup>2</sup>  | 0                         | \$500               |
| The Fund for the Advancement of Education and Research at the University of Kentucky Medical Center, Inc. | 0                   | 0            | budgeting, purchasing, financial services provided      | 0  | 0   | 0                         | \$61,000            |

<sup>2</sup>Funds held in foundation for operation of athletic program.

\*Amount by which the sublease payment due from the Athletic Association for use of Commonwealth Stadium was reduced due to investment earnings of this amount from a state fund of \$3 million being held in trust to be used toward debt retirement.

TABLE 2, continued

| University/Foundation                      | State Appropriation | Student Fees | Administrative Services Provided                     | Office Space Provided                        | Gross Income Generated From State Property or Auxiliary Operation | Research Grants/Contracts | Private Gifts, Etc. |
|--|---------------------|--------------|--|--|---|---------------------------|---------------------|
| Health Care Collection Service, Inc.       | 0                   | 0            | 0  | 0  | 0   | 0                         | 0                   |
| McDowell Cancer Network, Inc.              | 0                   | 0            | ---operated within university budget as line item--- |  | 0   | \$50,000                  | 0                   |
| UK Business Partnership Foundation, Inc.   | 0                   | 0            | 0  | 0  | 0   | 0                         | 0                   |
| Tobacco and Health Research Institute      |                     |              | ---department within the university---               |  |   |                           |                     |
| UK Alumni Association, Inc.                | 0                   | 0            |  | space provided in university owned building* | 0   | 0                         | \$449,000           |
| Kentucky Medical Services Foundation, Inc. | 0                   | 0            | 0  | 0  | 0   | 0                         | 0                   |
| Spindletop Hall, Inc.                      | 0                   | 0            | 0  | maint. & insurance constitute rent           | dues <sup>3</sup>   | 0                         | 0                   |

<sup>3</sup>to be used on operation of club.

\* Building was built with a donation from the Alumni Association, which specified that it be used for alumni relation purpose.

TABLE 2, continued

| University/Foundation                   | State<br>Appropriation | Student<br>Fees        | Administrative<br>Services<br>Provided                     | Office<br>Space<br>Provided                                    | Gross Income Generated<br>From State Property<br>or Auxiliary Operation | Research<br>Grants/Contracts   | Private<br>Gifts, Etc. |
|---|------------------------|------------------------|--|--|---|--|------------------------|
| McDowell Foundation,                    | 0                      | 0                      | 0  | 0  | 0   | 0  | privately<br>operated  |
| Kernel Press, Inc.                      | 0                      | 0                      | faculty advisor<br>0                                       | space provided<br>in exchange<br>for free<br>newspaper         | 0   | 0  | 0                      |
| UK Credit Union, Inc.                   | 0                      | 0                      | 0  | space provided<br>in exchange<br>for informa-<br>tion services | 0   | 0  | 0                      |
| Hospitality House<br>of Lexington, Inc. | 0                      | 0                      | 0  | \$1 (lease)  | 0   | 0  | privately<br>operated  |
| St. Agnes' House, Inc.                  | 0                      | 0                      | 0  | \$1 (lease)  | 0   | 0  | privately<br>operated  |
| University of Louisville                |                        |                        |  |  | \$45,063 <sup>5</sup><br>(Kentucky Towers<br>Apartments)                | research-----\$14,062,018<br>other than<br>research-----\$18,803,732 |                        |
| UL Foundation, Inc.                     | 0                      | \$362,881 <sup>4</sup> | administration and operation<br>provided by the university |  |   |  |                        |

<sup>4</sup>continuing education fees as shown in accounts reported in audit.<sup>5</sup>to be used for any purpose of foundation (no longer in use)



TABLE 2, continued

| University/Foundation                     | State Appropriation                        | Student Fees | Administrative Services Provided                         | Office Space Provided          | Gross Income Generated From State Property or Auxiliary Operation | Research Grants/Contracts | Private Gifts, Etc. |
|---|--|--------------|--|--------------------------------|---|---------------------------|---------------------|
| UL Hospital, Inc. <sup>6</sup>            | \$13 million (univ., city, county approp.) | 0            | \$40 million <sup>6</sup> (operating expenses)           |                                | \$23 million <sup>6</sup>   | 0                         | 0                   |
| Medical School Fund, Inc.                 | 0  | 0            | administrative services provided by university personnel |                                | 0   | 0                         | 0                   |
| UL Institute of Industrial Research, Inc. | 0  |              | ---NO ACTIVITY SINCE 1975---                             |                                |   |                           |                     |
| Louisville Cardinal, Inc.                 | 0  | 0            |  | operate on university property | \$76,671 (sales) (in univ. agency acct.)                          | 0                         | 0                   |
| RODIN, Inc.                               | 0  | 0            |  | operate on university property | \$26,585 (sales) (in univ. agency acct.)                          | 0                         | 0                   |
| Minerva, Inc.                             | 0  | 0            |  | operate on university property | \$2,849 (sales) (in univ. agency acct.)                           | 0                         | 0                   |

<sup>6</sup>Hospital operated within the university in FY 81. These sums are therefore not controlled privately. The foundation has since assumed management. The funds will then be held by the foundation to be used to operate hospital.

TABLE 2, continued

| University/Foundation              | State Appropriation | Student Fees                                     | Administrative Services Provided | Office Space Provided          | Gross Income Generated From State Property or Auxiliary Operation | Research Grants/Contracts | Private Gifts, Etc.     |
|------------------------------------|---------------------|--|----------------------------------|--------------------------------|---|---------------------------|-------------------------|
| Louisville Review, Inc.            | 0                   | 0  | 0                                | operate on university property | \$4,524 (sales) (in univ. agency acct.)                           | 0                         | 0                       |
| Clinical Service Association, Inc. | 0                   | 0  | 0                                | 0                              | 0   | 0                         | 0                       |
| UL Associates, Inc.                | 0                   | 0  | provided by university           | 0                              | 0   | 0                         | fund raising activities |
| Law Alumni Foundation, Inc.        | 0                   | 0  | provided by university           | 0                              | 0   | 0                         | fund raising activities |
| UL Alumni Association              |                     | Operated as agency account within the university |                                  |                                |   |                           |                         |
| Speed Alumni Foundation, Inc.      |                     | Articles revoked in 1981                         |                                  |                                |   |                           |                         |
| L Club Foundation, Inc.            | 0                   | 0  | provided by university           | 0                              | 0   | 0                         | fund raising activities |

TABLE 2, continued

| University/Foundation                                     | State Appropriation | Student Fees                    | Administrative Services Provided  | Office Space Provided                 | Gross Income Generated From State Property or Auxiliary Operation   | Research Grants/Contracts | Private Gifts, Etc.           |
|---|---------------------|---------------------------------|-----------------------------------|---------------------------------------|---|---------------------------|-------------------------------|
| Western Kentucky University                               |                     |                                 |                                   |                                       | Operating Division:   |                           | Trust Div.                    |
| College Heights Foundation, Inc. (FY 80)                  | 0                   | 0                               | FY 81<br>-----\$35,000-----       |                                       | Laundry \$29,700 <sup>7</sup><br>Bookstore \$2,115,398 <sup>7</sup><br>(\$13,500 rent paid)<br>Fund Balance \$843,941 | 0                         | \$2,781,387<br>(fund balance) |
| Alumni Association of Western Kentucky University (FY 80) | 0                   | Operated within university<br>0 | -----\$122,000 <sup>8</sup> ----- |                                       | 0   | 0                         | \$70,366                      |
| Hilltopper Hundred Club, Inc. (FY 81)                     | 0                   | 0                               | -----\$5,000-----                 | space provided by university \$10,000 | 0   | 0                         | \$107,367                     |
| WKU Credit Union, Inc.                                    | 0                   | 0                               | 0                                 |                                       | 0   | 0                         | 0                             |

<sup>7</sup> Initiated by foundation originally and is operated on university property; funds can be used for any foundation purpose.

<sup>8</sup> Also funds university alumni programs.

In other cases not only is public property being used by a private entity, but that private entity is also collecting income that is generated in the process of using the property. However, in all cases income is either returned to the university, used for some benefit of the university, or used to operate the program for which the foundation was created.

Most commonly, university corporations receive funds from state and federal government research grants and contracts, private gifts, endowments and endowment income. However, one foundation attached to the University of Louisville collects revenues generated from fees for performing the teaching mission of the university as well (continuing education classes, for example). However, in some cases, those classes could be considered private contracts. Therefore, it could be stated that university corporations may receive and hold state and public resources as well as private resources.

### Expenditures

The university corporations that are affiliated corporations generally follow the same expenditure, purchasing, and contracting procedures as do the parent institutions. However, since the affiliates are separately incorporated bodies with all the rights, privileges and responsibilities of a private corporation, expenditures may be made for any purpose, as long as it is not inconsistent with the articles of incorporation and operating procedures adopted by the board of directors of each corporation. Because of the legally independent nature of university corporations and because there are no controlling statutes prior to 1982, with respect to the close university connection, the potential for abuse, in principle, exists. The passage of HB 622 does provide some control of affiliated corporations if a university chooses to subject the corporation to those controls (OAG 82-521). If a university elects, an affiliated corporation is subject to the same standards of purchasing and accounting as the university.

### Governing Structure and Control

As private bodies incorporated pursuant to KRS Chapter 273, university corporations are legal entities unto themselves. Technically, they are responsible for their own actions and use funds in any way they choose, as long as the use is consistent with the article of incorporation and does not violate the Internal Revenue Code, Section 501(c)(3), tax-exempt status.

With only a few exceptions, the university corporations are to various degrees controlled or influenced by the host university. For the most part the university corporations operate according to the general provisions and policies of the host university. It is quite important that the university corporations, especially the designated affiliated corporations, operate with the approval of the university. Not only is it important for public relations purposes, but also because "under certain circumstances, if due care is not exercised, they (the university Board of Regents or Trustees) could be exposed to risks and

liabilities as a result of actions by their separate foundation.” (*University Connected Research Foundations*, Raymond Daniels, et al., pages 95-96, published by the University of Oklahoma, Office of Research and Administration.) A legal principle called “piercing the corporate veil” states that a corporate entity will be disregarded by a court whenever it is used to defeat public convenience, protect fraud or circumvent the law. Consequently, a university could be held liable for actions of its affiliated corporations. Thus, it is important for a university to maintain some control, to avoid maverick actions of its corporations. The likelihood of the “piercing of the corporate veil” principle being invoked is obviously even greater when university corporations operate merely as legal shells, using university staff and administration totally.

“If a foundation is administered as if it exists in name only, a court might very well deny it the protection of separate corporate powers” (Ibid). In that case a university could be held responsible for any and all actions of its corporations. Because of this legal principle it is prudent for a university corporation to conduct its affairs consistently with the policies and regulations governing a university itself, in order to protect a university, and the state, from liability for not operating within applicable law.

With respect to the eight state universities and the forty or so related corporations, there appear to exist about five levels of control. Table 3 outlines the board structure of the various university corporations. The first level is the case where the board of a foundation is the same as the Board of Trustees or Regents of a university. In this case the university is clearly responsible for the actions of the foundation. In fact, in the *Courier-Journal and Louisville Times vs. the University of Louisville Board of Trustees* (1979), the court held that board meetings of the foundation are subject to the open meetings law, since a quorum of the foundation board constituted a quorum of the university board.

The second level of control, and the form that is most common, is that wherein the president of a university, a few trustees or regents, and other administrative officers serve ex-officio on the corporation board. A quorum of such a board would not constitute a quorum of the university board. Although the board of the university and foundation is not duplicated, control by the university is apparent and significant responsibility probably exists.

At the next two levels a university may or may not exercise control. The first of the two are those cases where the board of the host university appoints members to the corporation; the second is the case wherein the board of the corporation is made up of university employees, either faculty or staff.

An appointee may be appointed specifically to represent a certain point of view. On the other hand, if such an appointee decides to act otherwise, the appointor simply has to endure the behavior until that appointee's term expires. An employee, however, may jeopardize his employment status if he moves too far from approved university policy.

The last level of control is in fact no control. This level is characteristic of most alumni groups, but some primary foundations as well. In this case, the boards are self-perpetuating. Existing board members select new members either from the community-at-large or from some category of people, such as people who have paid annual dues.

TABLE 3  
SUMMARY OF UNIVERSITY CORPORATION ORGANIZATION

| University/Corporation                                       | Board Structure  | Relation With University by Contract | Auxiliary Operations  |
|--|--|--------------------------------------|---|
| EKU Foundation, Inc.   | President of University<br>4 University staff ex-officio<br>6 members of Board of Regents<br>11 members (8 currently)                | No; however, leases are by contract. | Vending machines; laundromat; hairdryers telephones; lease of cropland; University Inn; firewood sale |
| Arlington Association, Inc.<br>(Eastern Kentucky University) | President of University<br>10 University staff ex-officio<br>11 alumni, staff, faculty selected by and from membership<br>22 members | Yes                                  | Golf course (leased from EKU Foundation for maintenance)  |
| KSU Foundation, Inc.   | President of University<br>35 members elected by membership  | No                                   |   |
| Morehead State University Foundation, Inc.                   | President of University<br>2 members of Board of Regents<br>3 staff<br>2 alumni selected by Foundation Board<br>8-15 members         | No                                   |   |
| Murray State University Foundation, Inc.                     | President of University<br>2 faculty or staff<br>2 alumni<br>15 members  | Yes                                  | Bookstore; golf course  |

TABLE 3, continued

| University/Corporation                             | Board Structure   | Relation With University by Contract | Auxiliary Operations                    |
|--|---|--------------------------------------|---|
| Northern Kentucky University Foundation, Inc.      | President of University<br>Member of Central Administration staff<br>Others selected by membership<br>5-100 members (5 quorum)<br>President of University<br>5 university staff ex-officio<br>3 other university staff<br>3 members of Board of Trustees<br>9-12 members appointed by Board of Trustees | Yes                                  | Vending machines; athletic house rental |
| University of Kentucky Research Foundation, Inc.   | President of University<br>6 staff ex-officio<br>15 members appointed by President<br>22 members  | Administrative Regulation            | None                                    |
| University of Kentucky Athletic Association, Inc.  | President of University<br>6 staff ex-officio<br>15 members appointed by President<br>22 members  | No                                   | (inter-collegiate athletics)            |
| Fund for Advancement of Education & Research, Inc. | President of University<br>Vice President of Medical Center<br>Chairman of Board of Trustees<br>2 appointees of Board of Trustees<br>5 members  | Administrative Regulation            | None                                    |
| Health Care Collection, Inc.                       | University faculty/staff appointed by President of University<br>5 members  | Yes                                  | None                                    |

TABLE 3, continued

| University/Corporation                            | Board Structure   | Relation With University by Contract        | Auxiliary Operations                                     |
|---|---|---|--|
| University of Kentucky Business Partnership, Inc. | President of University<br>3 University administrative staff<br>2 members of Board of Trustees<br>20 community members<br>26 members (appointed by President)   | No  | None   |
| Kentucky Medical Services Foundation, Inc.        | Medical School faculty and staff ex-officio<br>10 members   | Yes   | None   |
| Spindletop Hall, Inc.                             | elected by members who are alumni, faculty, staff (paid up club members)<br>President of University (non-voting)<br>11-21 members (17)  | Yes   | Tennis; swimming; club house (from UKRF for maintenance) |
| University of Louisville Foundation, Inc.         | same as university  | No  | Kentucky Tower Apartments                                |
| University of Louisville Hospital, Inc.           | same as university<br>University President  | No  | No   |
| Medical School Fund, Inc.                         | Vice President of Health Affairs<br>Chairman, Board of Trustees<br>2 members of Board of Trustees<br>appointed by Chairman, Bd. of Trustees<br>3 Medical School faculty elected from and by plan members<br>8 members | Articles of Incorporation specify procedure | No   |



TABLE 3, continued

| University/Corporation   | Board Structure  | Relation With<br>University<br>by Contract        | Auxiliary Operations |
|--|--|---|----------------------|
| Clinical Service Association, Inc.                                 | 10 Medical School dept. heads<br>Dean, School of Medicine<br>Ex-officio 11 members | Articles of<br>Incorporation<br>specify procedure | None                 |
| Western Kentucky University<br>College Heights Foundation,<br>Inc. | Board elected from members<br>who are selected from<br>community<br>12 members     | No  | Bookstore; laundry   |
| Hilltopper Hundred Club, Inc.                                      | Board elected from members<br>who are contributors<br>10 members                   | No  | None                 |

This type of structure could pose a danger to a university in the case of a primary foundation, not an alumni group, which enjoys a close identity with a university. Should such a group decide to operate outside university policy, the university may have few direct means to influence the corporation.

Since university corporations use university resources and represent a potential legal liability, there should be some means of university control. House Bill 622 mandates that affiliated corporations operate according to the same principles of accounting, purchasing, and auditing as the host university. To that degree, the concern raised is addressed. However, that method of operation is at the option of the university.

### **Financial Relationships With Universities**

Most of the university corporations studied relate to their host universities without the formality of a contract. Funds generally flow either by book entry or simple gift to the university only. A few universities use formal contracts or memoranda of understanding in financial relations with their affiliated corporations, as shown in Table 3. Since most affiliated corporations are closely tied to and controlled by universities, contracting has not been deemed necessary.

However, a non-contract relationship does not make for a clear distinction between university and affiliate and could lead to charges that a university is indeed responsible for the actions of a private corporation. Therefore, if a university is to be responsible for a corporation, certain controls over the corporation are not unreasonable. If a university is dealing with an organization it does not control, all transactions should be strictly contractual, arm's-length dealings, just as a university or state would relate to any other private entity to or from which it were providing or receiving services.

### **Audits and Financial Statements**

The University of Kentucky and University of Louisville provide annual audits and/or financial statements of the foundations they consider as affiliated corporations to the Council on Higher Education and the Office of Policy and Management in the Department of Finance and Administration. No other state-supported universities provide regular audits of their affiliated corporations to the respective state agencies, although annual audits by independent CPA firms are completed. Since foundations are considered private, the Auditor of Public Accounts does not perform audits for the state.

Based on personal service contract records, it appears that seven of the eight universities contract for financial audits only, rather than compliance audits, although compliance audits will be conducted in 1983. The same may be true for their corporations as well. Since no guidelines or standards were required by the state prior to 1982, a compliance audit would probably not have been appropriate with respect to university corporations and state standards.

## Public Resources in Private Corporations

Until recently, a problem had existed regarding the fact that, pursuant to KRS 41.290, universities could hold public funds yet treat them as private funds. The state had not offered a clear interpretation regarding state funds held by university corporations.

A common problem had been one involving a contract between a university corporation and a government entity. It had not been clearly stated in the past that, even though the use of funds in such a case is restricted, all restricted funds are not the same as private funds. If the funds are from, and even restricted by, a local or federal government source, according to Senate Bill 243 and industry audit guides, those are public funds, and therefore should be transferred to the Treasury. Prior to Senate Bill 243 funds generated from government research grants were not always being transferred to the Treasury pursuant to KRS 41.070. A significant proportion of federal funds that do come to the universities come in the form of a letter of credit. The grant funds are received after expended, at a predetermined interval. Therefore, there are not significant reserves of grant cash in the universities' bank accounts.

Likewise, other public receipts, as defined by SB 243, such as student fees, charges for seminars, and sales receipts, are being held by some university corporations. Since there was no clear definition, before SB 243, of state or public funds and the university corporations holding these funds are privately incorporated bodies, there was no basis for the universities to consider the funds public and transfer them to the Treasury. Certainly, the state had no claim on receipts held by a private entity and it was indeed plausible that all funds in a university corporation were private funds, since there were no guidelines to indicate differently.

The enactment of Senate Bill 243, however, appears to change that circumstance and provide some guidance for the handling of cash held by the universities and their affiliated corporations. Senate Bill 243 provides that all receipts received by a university or its affiliated corporation, except private funds, contributions and student funds, are public funds and therefore the provisions of KRS 41.070 apply. Those monies are public and must now come to the Treasury unless a university opts to operate on a delegation of authority basis, pursuant to HB 622. In that case affiliated corporations may retain all receipts but account for them according to the principles of audit and accounting used by the university. (OAG 82-521)

Finally, non-cash public resources are sometimes at the disposal of university corporations. Administrative services are, in many cases, provided to the university corporations by the universities without charge or compensation. In this way public resources are used by private entities as well. However, in some cases, these resources are used as leverage to control the affiliated corporations.

### Auxiliary Operations

Certain university corporations operate auxiliary enterprises, as shown in Table 3.

These are defined in the American Institute of Certified Public Accounts Audits of Colleges and Universities as entities that exist to furnish goods or services to students, faculty or staff and that charge a fee related to the cost. The public may be served incidentally by the auxiliary enterprise. In most cases the operation is not completely distinct from a university, in that university resources are used for which reimbursement is not always made.

As with university corporations in general, some of the operations are housed on university property, or use university personnel in their administration, or operation. Again, in some cases, a contract for the exchange of resources exists.

In summary, university corporations are not homogeneous. They operate for a variety of purposes. The problem is that university corporations have operated without direction, sometimes incorporating public resources in their operations, therefore leaving universities, which are state agencies, potentially liable.

## CHAPTER III

### LEGAL STATUS OF UNIVERSITY CORPORATIONS

Boards of Trustees of the Universities of Kentucky and Louisville, and the Boards of Regents of the Northern Kentucky, Eastern Kentucky, Western Kentucky, Morehead State, Murray State, and Kentucky State Universities are corporate bodies with the usual powers, rights and privileges attaching to educational institutions. These governing boards are charged with carrying out the purpose of the state's universities and colleges, which is to provide instruction and study in academic, vocational and professional subjects, and to render such supplemental services as are offered by libraries and museums, dormitories, farms, and recreational facilities.

Kentucky statutes do not specifically authorize universities to establish affiliated corporations. Neither do university charters specifically grant the authority to their governing bodies to engage in business-related activities. Yet such enterprises are carried on through controlled, affiliated or auxiliary organizations which have qualified as tax-exempt, non-profit, non-stock private foundations.

As non-profit, non-stock corporations, private foundations must organize according to procedures in the Kentucky Non-Profit Corporation Act (KRS 273). Qualifications and prohibitions are established by the Internal Revenue Code and the Kentucky Revised Statutes regarding the tax-exempt status granted private foundations.

#### Kentucky Non-Profit Corporation Act

In Kentucky, private foundations which are non-profit, non-stock organizations are organized pursuant to the Kentucky Non-Profit Corporation Act, KRS 273.161-273.390. This Act applies to all domestic and foreign non-profit corporations conducting affairs in the state.

A non-profit corporation, as defined by KRS 273.161(3), is a corporation no part of the income or profit from which is distributable to its members, directors, or officers. Furthermore, the corporation is prohibited from issuing shares of stock and paying dividends under KRS 273.237.

Corporations organized pursuant to the Act may be organized for any lawful purpose stated in KRS 273.167, including charitable, educational, social, recreational, literary, cultural, athletic, scientific, and agricultural purposes. Furthermore, not-for-profit organizations must restrict their purposes by limiting their articles of incorporation to one or more exempted purposes. Additionally, they must not empower themselves to engage, other than insubstantially, in activities which do not further one or more of those exempted purposes.

Powers granted non-profit corporations are substantially similar to powers ac-

corded other corporations organized in Kentucky. Among those powers listed in KRS 273.171, each non-profit corporation shall have power to:

- perpetual succession unless the articles of incorporation state otherwise;
- sue or be sued, complain and defend, in its corporate name;
- purchase, acquire, devise or bequest, own, hold real or personal property, or any interest therein except that pursuant to KRS 273.383, a corporation may not hold any real estate, other than that necessary to carry on the legitimate business for a period longer than five years under penalty of escheat;
- pledge, mortgage, lease, exchange all or any part of its property and assets, in accordance with KRS 273.297;
- lend money to its employees but not to directors or officers in accordance with KRS 273.241;
- acquire, sell, mortgage, pledge shares or other interests in, or obligations of other domestic or foreign corporations, whether profit or not-for-profit, associations, partnerships, or individuals;
- contract and incur liabilities, borrow money at determined rates, issue its notes, bonds and other obligations, and secure any of its obligations by mortgage or pledge of all or any of its property;
- elect or appoint officers and agents of the corporation;
- make or alter bylaws consistent with the articles of incorporation for the administration and regulation of the affairs of the corporation;
- make donations for charitable, scientific or educational purposes or public purposes;
- indemnify any director or officers for expenses incurred in defending legal action;
- establish pay pensions for directors, officers, and employees; and
- cease corporate activities and surrender the corporate franchise.

These affiliated corporations or foundations are also organized so as to be tax-exempt according to the Internal Revenue Code, Section 501(c)(3). Therefore, no earnings may inure to the private benefit of a shareholder or individual. In order to maintain this status, revenue may not be generated substantially from unrelated business sources and revenues must be used for the purpose of the organization.

### **Governing Bodies and Management of the Corporation**

Management of the affairs of a non-profit corporation is conducted by a board of directors, whose qualifications, number (not less than three), and election may be specified by the articles of incorporation. Unless provided for in the articles of incorporation, or bylaws, vacancies may be filled by the remaining board (KRS 273.213). A quorum shall be a majority of the number of directors fixed by the bylaws (KRS 273.217). An act of the majority of directors is considered an act of the entire board of directors.

While corporations have all general powers granted them by KRS 273.171, and all specific powers conferred throughout the Act, these powers are not required to be set forth in the article of incorporation. However, a general reference to those statutes and powers is necessary. Furthermore, whenever a provision of the articles of incorporation is inconsistent with a bylaw, KRS 273.247 states the provision of the articles of incorporation is controlling.

### **Bylaws**

According to KRS 273.191, the board of directors of a non-profit corporation shall adopt bylaws for regulation and management of the affairs of the corporation. Bylaws may contain provisions regarding:

- qualifications, number and elections of directors (KRS 273.207, .211);
- vacancies on board of directors (KRS 273.213);
- quorum of board of directors (KRS 273.217) and members (KRS 273.203);
- committees of board of directors (KRS 273.221);
- notice and place of directors meetings (KRS 273.223, .373);
- greater voting requirements of members or directors of a corporation;
- member classes, qualifications and rights (KRS 273.187);
- notice of meetings of members (KRS 273.193, .197; and
- voting rights of members (KRS 273.201).

### **Books and Records of Private Foundations**

Under KRS 273.233, each corporation organized under the Kentucky Non-Profit Corporation Act must keep complete, correct, and accurate books and records of account of all funds of the corporation. All records are subject to inspection by any member, or by his agent or attorney, for any appropriate purpose at any reasonable time. Moreover, minutes of proceedings of individual members, the board of directors, or committees are to be chronicled and kept as books and records. KRS 273.233 also requires that a record of names and addresses of members entitled to vote be kept at the corporation's principal or registered office in the state.

### **Qualifications for Tax-Exempt Status of Private Foundations**

Private foundations and affiliated organizations operating for the benefit of, or performing a function for, an educational institution are generally separately organized, incorporated as not-for-profit, non-stock entities, and granted tax-exempt status under federal and state laws. Inherent in the establishment and operation of these types of private foundations is assistance, financial or otherwise, to universities. However, foundations have sometimes involved institutions in enterprises that generate significant annual incomes. While these enterprises may benefit the educational institution, the end result is pro-

fit. The Internal Revenue Act of 1950 intended to correct and regulate the potential abuse of profits. Thus, all profits realized from any trade, business or activities unrelated to a private foundation's charitable, educational or other purpose, which constitutes the basis for its exemption, are taxable under the Internal Revenue Code, Section 513.

### Articles of Incorporation

As a declaration of its existence, powers and authority, the contents of the articles of incorporation of non-profit, non-stock corporations organized under the Non-Profit Corporation Act must, pursuant to KRS 273.247, include the following:

- name of the corporation;
- period of duration, which may be perpetual;
- purposes for which corporation may be organized;
- provisions regarding the regulation of internal affairs of the corporation, including the distribution of assets, dissolution or final liquidation;
- the address of its registered officer and registered agent;
- number, names and addresses of directors constituting the initial board of directors; and
- names and addresses of each incorporator.

Articles of incorporation may also contain requirements and provisions relative to:

- designation of classes, rights and qualifications of members (KRS 273.187);
- meetings of members (KRS 273.193);
- notice of members' meeting (KRS 273.197);
- voting rights of members (KRS 273.201);
- residency requirements of directors (KRS 273.207);
- vacancies on board of directors (KRS 273.213);
- committees of board of directors (KRS 273.221)
- officers, election, appointment and terms (KRS 273.227);
- greater voting requirements for any action to be taken by members or directors of corporation (KRS 273.370).

### Reporting and Standards

Prior to HB 622 there were no reporting or auditing requirements for university corporations except reports (address, legal status, etc.) which are required by the Secretary of State. The universities themselves are audited each year. Each university secures its own contract with a CPA firm to perform the audit.



The Council on Higher Education has prepared a Uniform Financial Reporting Manual, which is a suggested format in which the universities are to report financial information to be used in the budget-making process. The manual also provides a recommended format for reporting financial information concerning the universities' corporations. Compliance with the manual format, as well as reporting foundation financial information at all, had been voluntary until July, 1982. Consequently, foundation financial information available to the Council on Higher Education, the Office for Policy and Management, or the Legislative Research Commission has been inconsistent and limited. Only the University of Kentucky and the University of Louisville have regularly transmitted audits for those university corporations that they considered to be affiliated corporations.

The State Auditor's Office does not audit foundations. That office has taken the position that the state does not have audit jurisdiction over privately incorporated entities, even if they are closely tied to state agencies.

Prior to the requirements contained in HB 622, lack of consistency, accountability or required guidelines contributed to a certain amount of confusion in the budget preparation process. Some universities held funds in their foundations that others held in their university accounts. Some reported all private assets and some did not feel private funds should be subject to public review. As a result it has been difficult to ascertain the complete financial condition or financial operating procedures of all eight universities. This has in turn made the budget preparation process uneven, in terms of application, and made complete awareness of all public resources and resources available for a state agency's use, however restricted, difficult at best.

The AICPA's defining of various funds provides a simple and convenient means of categorizing resource of university foundations and their parent institutions.

Those account definitions are as follows: (comments in parenthesis are staff interpretations).

- **tuition and fees:** all fees assessed against students for educational purposes (since these are funds generated in accordance with the mission of the university they are public funds that may be of restricted or unrestricted application);
- **federal, state, local government appropriations:** funds generated by legislative acts or taxing authority (these funds are by nature public and may be restricted or unrestricted in application);
- **sales and services of educational activities:** (1) revenues that are related incidentally to the conduct of instruction, research, public service, or (2) revenues of activities that exist to provide instructional and laboratory experience for students and that incidentally create goods and services that may be sold to students, faculty, staff, and the general public (examples are film rental, sales of publications). (Since this revenue is also generated, although indirectly, from the mission activities of the university, the funds are public. The revenues may be restricted or unrestricted in application.)

- **sales and services of auxiliary enterprises:** revenues generated from an entity that exists to furnish goods and services to students, staff, and faculty that charge a fee related to the cost of the service or good. Examples are residence halls, food service, intercollegiate athletics (if essentially self-supporting), and college stores. (Since these are services essentially and primarily for the benefit of and are supported by the university population, these could also be considered public funds. The Price-Waterhouse study (1981) recommended that this type of operation be a part of the university operation, since there is no clear justification to do otherwise. This course would also allow the university to maintain control and avoid abuse of the potentially monopolistic position of the service. Again, the funds probably would be restricted to maintain the service, but could be totally or partially unrestricted.)
- **private gifts and grants:** funds from non-governmental organizations and individuals including funds resulting from contracting or the furnishing of goods and services of an instructional, research or public service nature (for example, a contract to do research for the Kentucky Bankers Association). (These funds are private and may be restricted or unrestricted; gifts, for example.)
- **endowment income:** gifts of which the principal shall not be spent, including interest income. (These funds are private and may be restricted or unrestricted according to the specifications of the donor.)

KRS 41.290 also defines another source of funds: private funds of students in state educational institutions. These funds, as stated, are private and restricted in use.

As has been shown earlier in this study, many university corporations hold some public funds (as defined above) and several use public resources as well. Since university corporations heretofore have not been under the review of the Auditor of Public Accounts, the Finance and Administration Cabinet, or legislative committees, and since there have been no standards by which to review them, there has been potential for abuse. This is not to say that abuse has in fact been occurring, but merely that the current structure or process is open to criticism and is therefore not in the best interest of the universities or the public.

## CHAPTER IV

### CONCLUSIONS AND RECOMMENDATIONS

The passage of House Bill 622 will significantly affect university foundations. First, the bill authorizes the formation of affiliated corporations and defines the relationship of an affiliated corporation to a university as one over which a university has effective control, and an affiliated corporation as one which, without university assistance, could not exist.

The primary issue under consideration has three significant aspects. University affiliated and certain non-affiliated corporations are:

1. using public resources to varying degrees in their operations;
2. holding public funds; and
3. beyond the purview of the State Auditor and the oversight of the General Assembly, since they are separately incorporated bodies.

Oversight and accountability are justifiable, however, not only because these organizations are closely tied to universities, which are state agencies, but also because they are in some cases controlling public funds and using public resources.

The first aspect of the issue appears to have been addressed in the passage of HB 622 during the 1982 General Assembly. When university resources, such as personnel, facilities, and equipment, are used in the process of executing a grant, contract, or other project, a quarterly accounting of all income and expenditures of the affiliated corporation must be provided the host university [HB 622, Section 14(2)]. Specifically, the affiliated corporation must reimburse the institution for indirect expenses incurred by the host university while the affiliated corporation has been undertaking research or furnishing goods or services. Presumably, this provision requires payment by the affiliated corporation for expenses it causes the university to incur, not only in the process of seeking and conducting research contracts, but also while "furnishing goods or services," including fund-raising activities or operating auxiliary enterprises. Consequently, this aspect of the issue should be sufficiently addressed by the monitoring of affiliated corporations to determine if expenses to the universities incurred by affiliated corporations are in fact being compensated.

The second aspect of the issue deals with public funds: What are public funds and how should such funds be treated? Again, the 1982 General Assembly did address this issue. Senate Bill 243 defines public funds as all funds held by any state agency or its fiduciary except as otherwise provided. KRS 41.290 provides otherwise in that it identifies gifts and certain other funds as private funds (therefore different from public funds). Private foundations hold private funds, according to OAG 82-521.

Public funds, however, must be accounted for and expended according to state regulation and guidelines. And, even though HB 622 permits affiliated corporations to re-

tain their public as well as private funds, those corporations must account for and expend those public funds according to the same principles of accounting and purchasing used by the host institutions [HB 622, Section 14(1)].

Further, HB 622, Section 4, requires regulation specifying fund definitions for use by universities and, presumably, their affiliates. These fund definitions are to be consistent with the definitions put forth by the National Association of College and University Business Officers and the American Institute of Certified Public Accountants. These definitions, along with the definition of public funds in SB 243, essentially state that all funds held by public agencies are public except private gifts, grants, endowments, and contracts. Even though affiliated corporations are not state agencies, they are to use the same accounting principles as the host university, which implies the use of the same fund definitions.

Those principles of purchasing and accounting also include auditing according to minimum standards prescribed by the Finance and Administration Cabinet and purchasing procedures according to Chapters 45 and 45A. It is not clear whether "purchasing" includes capital construction and whether KRS 45.790 will apply to affiliated corporations. HB 146, also passed by the 1982 General Assembly, specifies that capital construction by state agencies using at least fifty percent private or federal grant funds must now be reviewed by the Legislative Capital Construction Oversight Committee.

These provisions appear to provide sufficient oversight for the process of expenditure, and oversight or accountability is the third aspect of the issue. However, it is not clear that there currently is sufficient oversight regarding the purpose of expenditure. Purpose oversight is implied in HB 622, in that a system for post-review is provided; however, there is no mention of budget review as is required of the university. And, as stated earlier, it is not clear that capital construction activities of affiliated corporation come under the purview of purchasing oversight. Use of university resources by an affiliated corporation should be delineated in a university's budget. Even so, that budget item may not be clear and is certainly not sufficient disclosure of the use of public resources. Therefore, the following recommendation is made:

#### Recommendation

1. There is overlap of resources of universities and affiliated corporations; moreover, HB 622 does not specifically address capital construction activities of affiliated corporations. Thus, legislation should be introduced to require budgeted public funds of university affiliated corporations to be subject to prior review by the Finance and Administration Cabinet and the Legislative Committee on Appropriations and Revenue during the biennial budget process.

The committee voted to reject Recommendation #1 and replace it with the following:

1. All affiliated corporations should be required to file annual financial statements in accordance with guidelines established by the

Council on Higher Education. All funds deposited with affiliated corporations should be excluded from the appropriation process. Where affiliated corporations provide services for an institution that are traditionally performed by the institution, state policies and procedures should govern the expenditure and use of those funds.

The preceding discussion is predicated on the belief that each university governing board will opt to operate its affiliated corporations under the provisions of HB 622. Compliance with these provisions is optional, according to the statute and OAG 82.521. If a particular university chooses not to subject its affiliated corporations to the provisions of HB 622, then none of the compensatory and oversight provisions discussed above would apply. Although HB 622 authorizes the creation of affiliated corporations and thereby implies that affiliated corporations must abide by the controls specified in their enabling legislation, the implication seems inadequate, which prompts the following recommendation.

2. To provide consistent treatment and complete oversight by appropriate review bodies, legislation should be introduced specifying that affiliated corporations must comply with the provisions of HB 622.

It should be clearly noted that private funds held by either a university or its affiliated corporation are not to be restricted by state procedures. Neither HB 622 nor those recommendations are to be interpreted as interfering with the execution of the bonafide purposes of private grants, contracts and gifts.

There is a final issue that HB 622 does not address. That is, what will be the status of university corporations that are not affiliated corporations (i.e., they are not controlled by a university, yet are substantially assisted by the university in their operations)? In these cases public resources may be used in the process of operating the organization, even though the funds may be held by the organizations for the benefit of a state agency. KRS 164.350 does not authorize universities to give away public property or resources. Therefore, some kind of defined relationship should be specified for these situations.

#### Recommendation

3. Legislation or regulations should be introduced requiring that all university and affiliated corporation dealings with non-affiliated corporations should be on the basis of contract, specifying services received and rendered, and appropriate compensation, as would be done between any private entity and public agency.



## APPENDIX

### EASTERN KENTUCKY UNIVERSITY FOUNDATION

#### PURPOSE

The purpose of the Eastern Kentucky University Foundation, Inc. is solely to cooperate with Eastern Kentucky University and its Board of Regents in the promotion of the educational, civic, and charitable aims of the university in a legal manner but without regard to possible restrictions which may restrain or limit direct action by the Board of Regents. The articles include as corporate purposes "The encouragement of scholarship and research and the promotion of the prestige, expansion, and development of the College, including the development of its physical plant, the improvement of its faculty, and the assistance of its students and alumni."

#### BOARD STRUCTURE

The foundation is governed by a Board of Directors which is interlocking with the university's Board of Regents. The foundation is controlled by the university. The foundation Board of Directors is limited to eleven persons consisting of:

- a. the President of the University;
- b. the Treasurer of the University;
- c. the Executive Assistant to the President of the University;
- d. the Dean of Public Affairs of the University;
- e. the Director of Alumni Affairs of the University;
- f. each member or former member of the Board of Regents of the University who is a resident of Madison County;
- g. a citizen of Madison County appointed by the Board of Regents should a former member as referred to in item f refuse to serve on the Board of Directors;
- h. at least one member of the Board of Regents who is not a Madison County citizen who is chosen by the Board of Regents in the event that no Madison County citizen sits on the Board of Regents;
- i. any additional members authorized by the Board of Directors appointed from the Board of Regents for a term not to exceed three years or the expiration of their terms as Regents of the University.

In addition to the Board of Directors, the foundation has the following officers:

- a. a President (President of the University);
- b. a Vice-President (member of the Board of Directors);
- c. a Secretary (Executive Dean of the University);

- d. a Treasurer (Treasurer of the University); and
- e. such other officers as the Board of Directors may determine.

An Executive Council which is authorized to act in the absence of the Board of Directors is composed of:

- a. all officers of the foundation; and
- b. other members of the Board of Directors, if any, as the Board may select.

### **When Formed**

Eastern Kentucky University Foundation was incorporated on August 1, 1963, as the Eastern Kentucky State College Foundation, a domestic non-stock, non-profit corporation for educational, charitable and public purposes under Chapter 273 of the Kentucky Revised Statutes. The original name of the foundation was changed by amendment to the Articles of Incorporation on January 25, 1967.

### **Scope of Activity**

The Foundation has the power to carry out the following activities:

1. to deal with Foundation property in any manner consistent with the stated Foundation purpose, including but not limited to sell, mortgage, lease, or gift provided that such disposition does not violate the terms or conditions of any grant through which such property was received by the Foundation;
2. to make grants or loans for research and scholarships;
3. to assist the university in financing any project which it has undertaken and to directly or indirectly finance any project which the University Board of Regents requests the Foundation to undertake;
4. to make contracts, borrow money, incur indebtedness and issue its notes or bonds in evidence of the same and to use any or all of its property as security for the same;
5. to partake of all other general powers given to non-stock, non-profit corporations under KRS 273.171.

### **Staffing**

The Foundation has no paid staff. Foundation business is carried on by university personnel.

## **A. REVENUES**

### **Sources of Revenue**

1. **Contributions**—Most of the cash contributions received by the foundation carry restrictions relative to the use of the gift. These contributions are accounted for in "Restricted Fund" accounts.
2. **Commissions from Vending Machines**—As approved by the University Board of Regents, the foundation has the authority to operate vending



machine concessions on campus. Vending concessions can be operated directly by the foundation or through selected vendors. The foundation accepts bids from interested vendors and operates the vending concessions on a commission basis. All income realized from the vending operations belongs to the foundation. There is no reimbursement to the university for space and utility subsidy.

3. **Commissions from Telephones**—As approved by the University Board of Regents, the foundation receives the income from the Telephone Assessments Account, which is funded by pay telephone stations located around the campus.
4. **Laundromat and Hair Dryer Receipts**—As approved by the University Board of Regents, the foundation leases the concessions of coin operated laundry machines, dryers, and hair dryers in the university's dormitories. All income realized from these leases belongs to the foundation. There is no reimbursement to the university for space and utilities.
5. **Rental Receipts**—As approved by the University Board of Regents, the foundation receives income from two leases with the university. The foundation leases 20.22 acres of land to the school for cropland for \$800 per year plus thirty-five cents per pound of tobacco allotted to the property each year. The foundation also leases the University Inn to the school for use as dormitory space. The university's annual lease payments equal the foundation's annual mortgage payments toward the property (FY 81: \$241,000).
6. **Student Activity Fund Interest**—As approved by the University Board of Regents, the foundation annually receives existing uncommitted balances from the school's Student Activity Fund for the Revolving Fund Interest Account. The term "Student Activity Fund" is not a true representation of the type of funds which are included in the account from which existing uncommitted balances are turned over to the foundation each year. This account actually contains agency funds that the university maintains as agency accounts for faculty and student organizations, such as faculty clubs, women's clubs, the ECU Colonel Club, etc. (These agency accounts should be distinguished from trust and agency accounts.) The available balances in these agency accounts are invested on a day-to-day basis. The interest earned through the investment is turned over to the Foundation annually. The "Student Activity Fund" does not include student activity fees, which are collected upon registration.
7. **Firewood Sales**—The foundation sells firewood to any interested party at a going rate.
8. **University Check Assessments**—As approved by the University Board of Regents, the foundation receives existing balances from the school's University Check Assessments Account annually. The university receives a number of bad checks during the year. A \$5 fee is charged for each bad check written and deposited into an account which is used to reimburse the university for bad checks which are never collected. The amount of money left in the check assessment account after the university's losses have been recovered is foundation income.
9. **Interest on Investments.**

## **Application of Receipts**

Receipts are closely tied with the purpose of the foundation.

## **Policy on Gift Acceptance**

The foundation has no written policy on acceptance of gifts. All gifts must, however, adhere to IRS guidelines. The foundation will only acknowledge a gift that is unrestrictive in terms of the eventual recipient and which does not involve the donor in the selection process. The president of the foundation, who is also the president of the university, is authorized to accept any gifts with reasonable restrictions without Board approval. This is in contrast to the university's policy on gift acceptance. Any gift to the university, except those in the area of university archives and the university museum, must be approved by the Board of Eastern Kentucky University Foundation Regents prior to acceptance. Any gift made to the school remains with the school and is maintained by the school.

## **Identity of Funds**

While the unrestricted fund of the foundation does not include sub-accounts for revenues by source, the financial statements of the foundation do reflect the specific sources and dollar amounts of income to the unrestricted fund as well as each category of expenditure from the unrestricted fund. Unrestricted fund expenditures require authorization by the foundation Board of Directors.

Those revenues included in the Unrestricted Fund include that from laundromat, vending commissions, telephone commissions, that portion of interest on investments applicable to unrestricted funds, rental of cropland to ECU, firewood sales, student activity revolving fund interest, university check assessments, rental of the University Inn to ECU, and issuance of fishing permits.

Those revenues included in the Restricted Fund account include contributions to individual scholarship accounts and loan programs, donations to the Margin for Excellence Fund, and prorated interest from pool investments.

## **Auxiliary Operations**

See Sources of Revenue.

## **B. DISBURSEMENTS**

### **Acquisition of Capital Items**

The fixed assets of the foundation are accounted for in the Plant Fund. Fixed assets which are accounted for include the Arlington land and improvements thereto, and the University Inn.

The foundation has constructed a golf course and facilities on the Arlington land. Up until July 1, 1981, the golf course was leased to the university for the use and benefit of the university for a rental of one dollar per year. The lease provided for the university to keep and maintain the premises in good order and repair, and also to operate the golf course for the use of the students and members of the Arlington Association. The lease for the golf course is currently held by the Arlington Association under the same terms.

The foundation also leases 20.22 acres of land adjacent to the golf course to the university for cropland.

In September, 1980, the foundation purchased the University Inn, a motel located near the school, from the University Inn, Inc. The inn was purchased under an installment agreement for \$1,200,000. The motel was then leased to the university for annual lease payments equal to the foundation's installment purchase payments. The inn was purchased by the foundation to help alleviate the university's shortage of dormitory space. State purchasing procedures precluded the university from purchasing the motel within the time frame necessary to ease the space shortage. The arrangement between the university and the foundation for the lease was sanctioned by the Department of Finance.

### **Operational Expenses**

The foundation lists no operational expenses.

### **Operational Expenses—Source**

The foundation's operating expenses are assumed by the university. The university provides the foundation's staffing and space needs as well as other incidental costs. University personnel estimate the value of this subsidy to the foundation to be approximately \$5,000. However, the \$5,000 estimate for staffing the foundation, as cited by the university, does not include the time spent by university personnel holding foundation offices attending meetings, the small amount of time spent by Dr. Whitlock in his capacity as foundation secretary, the time spent by Earl Baldwin in his capacity as foundation treasurer in making and managing investments, and the clerical time spent in acknowledging contributions and typing monthly financial statements.

### **Investments**

The foundation Board of Directors has delegated all investment authority to the treasurer of the foundation. The foundation treasurer follows the same general guidelines as the university. The foundation does not make investments which are speculative in nature. The stocks and bonds accounted for in foundation assets were gifts to the foundation.

When funds such as the Jane F. Campbell Fund reach the \$5,000 range, those funds are discreetly invested. Smaller funds, those in the \$50-\$100 range, plus uncommitted money in the unrestricted fund, are pooled for investment purposes. The interest earned from the investment is then distributed proportionately.

### **Loans and Scholarships**

The foundation makes no loans to students or faculty from its unrestricted funds. However, loans are available to students through two restricted loan funds administered by the foundation:

1. the Robert R. Martin Student Emergency Loan fund;
2. the Jack Hamilton Loan Fund.

Most of the scholarship funds administered by the foundation are restricted in terms of purpose and qualified recipients. A university scholarship committee, which is an instrument of the university, coordinates all scholarships administered

by the foundation and the university. Doug Whitlock, the secretary of the foundation, chairs the University Scholarship Committee. The foundation also administers externally funded scholarships for students from other states.

The foundation issues approximately 25 new scholarships each year from its unrestricted fund. This policy has been in effect for about four years. At any given time there will be 100 scholarships from the foundation in force.

The restricted scholarship programs administered by the foundation are issued to one student except for the following:

|                              |    |
|------------------------------|----|
| Jane F. Campbell Scholarship | 50 |
| Ireme Muller Scholarships    | 10 |
| Myrtle Mitchel Scholarships  | 8  |
| Hensley Scholarships         | 4  |
| Gilford Scholarships         | 3  |
| Hill Scholarships            | 2  |

Externally funded scholarships are administered by the foundation through its miscellaneous scholarships account. These external entities sometimes contact the university for information on how to handle the scholarships and are referred to the foundation. University personnel state that some of the external scholarships have provisions which call for refunds to the donors. The foundation administers these programs because they can provide more discretion and process refunds to donors faster than the university can.

In addition to the foundation scholarships, the university administers academic scholarships under the Presidential Scholarship Program. This program is supported by the student financial assistance portion of the University's budget. Between 40 and 50 new scholarships are administered each year. At any given time there will be about 200 in force.

The number of annual scholarships issued by the Alumni Association is dependent upon alumni support for the year. However, the range is generally from 14 to 20. The University Scholarship Committee does not coordinate Alumni Association scholarships.

#### Staffing: Compensation

The foundation has no independent staff. University personnel assume the responsibility for foundation work.

#### Indirect Cost Policy

The foundation does not reimburse the university for indirect costs. The university and the foundation feel that the quid pro quo relationship between the two is enough to justify this support.

### C. TRANSFERS

#### Direct Payments to University

The foundation pays the operating expenses of a meditation chapel at the school and a portion of the salary of a university professor who also serves as Chaplain. The salary paid the chaplain is remitted directly to the university, which in turn

issues a check for that portion of the salary plus its portion for the person's faculty duties.

### **Receipts from the University**

The foundation receives money from the university for its leases of cropland and the University Inn. In addition, the foundation still receives transfers of uncommitted balances in the Student Activity Fund for the Revolving Fund Interest Account, the Telephone Assessments Account, and the University Check Assessments Account at the close of each fiscal year.

### **Services for Which Reimbursement May or May Not be Made**

The foundation does not reimburse the university for provision of staffing, space, and other operating costs.

The foundation renovated a room in the Coates Building, university-owned property, for use as the Robert R. Martin Room, which contains memorabilia from the public life of the University's sixth president.

Although the foundation ended up purchasing the University Inn, no reimbursement for appraisal costs, which had already been paid by the university, was sought.

The university does not seek reimbursement from the foundation for space and utilities used by the foundation in operation of its vending concessions and laundromat and hair dryer operations.

### **Reporting**

The foundation's financial reports are prepared by Doug Perry, a university employee. A monthly financial statement outlining revenues and expenditures is submitted to each member of the Board of Directors. Financial reports are not submitted to the university Board of Regents as a whole. However, individual Regents who serve on the foundation Board of Directors receive the monthly statements.

### **UNREIMBURSED SERVICES PROVIDED TO THE FOUNDATION BY THE UNIVERSITY**

**STAFFING**—estimated by University personnel at \$5,000.

**SPACE**—for conduct of foundation business. Space occupied by vending machines in various locations around campus from which the foundation receives concessions. Space and utilities utilized by the foundation for laundromat and hair dryer operations in campus dormitories.

### **EASTERN KENTUCKY UNIVERSITY FOUNDATION, INC.**

#### **TOTAL REVENUES FY 1981**

|                   |                      |
|-------------------|----------------------|
| Unrestricted Fund | \$ 625,565.66        |
| Restricted Fund   | 761,078.14           |
| Total             | <hr/> \$1,386,643.80 |

## TOTAL EXPENDITURES FY 1981

|                   |                      |
|-------------------|----------------------|
| Unrestricted Fund | \$ 473,436.80        |
| Restricted Funds  | 606,921.53           |
| Total             | <hr/> \$1,080,358.33 |

## TOTAL INCREASE IN FUND BALANCES FY 1981

|                           |               |
|---------------------------|---------------|
| Current Unrestricted Fund | \$ 167,926.34 |
| Current Restricted Funds  | 154,156.61    |
| Plant Fund                | 348,000.00    |

## TOTAL DISBURSEMENTS TO UNIVERSITY FY 1981

|                                |              |
|--------------------------------|--------------|
| Partial Salary for Chaplain    | \$ 11,612.50 |
| Operation of Meditation Chapel | 6,429.38     |
| Renovation of Coates Building  | 4,306.00     |

## EASTERN KENTUCKY UNIVERSITY ALUMNI ASSOCIATION

### PURPOSE

... to promote the general welfare of the university; to create and maintain an active interest among alumni in extending the influence of the university; to provide means of perpetuating friendships among alumni; to initiate and support activities which will further the interests of the university, its students, and alumni; and to aid the university in providing facilities to meet the educational needs of our society.

### GOVERNING STRUCTURE

The Alumni Association is governed by an Executive Council which consists of eleven members, elected by the active membership of the association, and two ex-officio members. The Executive Council is structured as follows:

- A. Voting members of the Executive Council consist of the President, First Vice President, Second Vice President, President-Elect, First Vice President-Elect, Second Vice President-Elect, immediate past president of the Association, and four members-at-large.
- B. Non-voting members consist of the Secretary-Treasurer and President of the current senior class.

The Executive Council determines the policies and programs of the Association and can meet upon the call of the President of the Association or by written petition of at least forty active members. A majority of the members of the Executive Council are required to be present for the transaction of business.

Any vacancy occurring on the Executive Council is filled for the duration of the unexpired term by a majority vote of the Executive Council.

The officers of the Alumni Association consist of:

- A. a President;
- B. a First Vice President;

- C. a Second Vice President; and
- D. a Secretary-Treasurer—Director of Alumni Affairs at ECU (answerable for his conduct of the Association to the President of the University and to the Executive Council of the Association)

The Secretary-Treasurer of the Association (also the Director of Alumni Affairs of the University) is appointed by the President of the University after consultation with the Executive Council, and is required under the Association Constitution to act as alumni representative to coordinate all activities of the Association, to organize alumni chapters, and to conduct an annual solicitation of contributions, and to carry out the program of the association as approved by the Executive Council.

The membership of the ECU Alumni Association is open to all persons who have received degrees from the institution. Persons who have attended the institution as fully accredited full-time students, and earned at least twelve hours credit, who have been faculty members, or who have been benefactors in other ways as determined by the Executive Council are eligible for associate membership. Honorary memberships may be awarded by the Executive Council. All active members have voting privileges; however, only ECU graduates may hold office in the Association.

### **Operating Expenses**

The Alumni Association is not incorporated and operates financially within the university's agency accounts. The fiscal year of the Association corresponds with the university's fiscal year. Any operational expenses incurred by the Alumni Association are assumed by the university.

## **EASTERN KENTUCKY UNIVERSITY STUDENT AID SOCIETY, INC.**

### **PURPOSE**

The purpose of the Eastern Kentucky University Student Aid Society, Inc. is to promote the welfare and aid in the education of poor and worthy students attending the university.

### **GOVERNING STRUCTURE**

The Student Aid Society is governed by an eight-person Board of Directors, all of whom are faculty or administrative staff members of the university, and who are appointed by the President of the University.

The officers of the Board of Directors include:

- a. a President, who is also the chief executive officer of the Corporation;
- b. a Secretary; and
- c. a Treasurer.

Officers of the Board of Directors are selected by the Board from persons nominated by the President of the University.

### **WHEN FORMED**

The Student Aid Society was incorporated on June 25, 1934, as the Eastern Kentucky State Teachers College Student Aid Society. Upon incorporation, the Society took charge of the

assets and assumed the current liabilities of the then-Student Loan Fund of Eastern Kentucky State Teachers College. The corporation is non-profit sharing and has no capital stock.

## SCOPE OF ACTIVITIES

The society's activities include:

- a. granting of loans to students and collection thereof with a legal rate of interest;
- b. awarding of previously established scholarships or fellowships, or ones which may hereafter be established, to students of recognized ability; and
- c. receipt of gifts and donations, in the form of money or income from bonds, securities, debenture obligations, or rentals from real estate, and administration of such gifts and donations in the terms prescribed by the donor.

In revised rules issued July 1, 1980, the Society states that it shall be considered as a source of emergency loans to implement and supplement other loan and grant programs of the university. Loans to qualified applicants are not made for a period exceeding six calendar months. Temporary emergency loans of \$100 or less may be reviewed and approved by any member of the Board of Directors. Loans exceeding \$100 must be filed with the secretary and approved by the Board. The present rate of interest on loans is 6% per annum with a minimum interest and/or service charge of one dollar.

## OPERATING EXPENSES

Student Aid Society funds are accounted for along with other loan funds in the university's agency accounts. The accounting records are kept by the school's office of accounts and budgetary control. Papers documenting loans are issued by the Vice President of Business Affairs. The university assumes the modest operational expenses of the Society, reasoning that this enhances the organization's ability to assist students.

Source of loan funds: returns on investment; revolving payments with interest.

Staff: Staff sources for accounting are provided by the university without reimbursement.

## Financial Summary 1981

|                               |          |
|-------------------------------|----------|
| Revenues:                     |          |
| Payments on Loans             | \$62,998 |
| Interest on Loans             | 1,676    |
| Expenditures                  |          |
| Loans                         | \$61,887 |
| Collection Costs              | 278      |
| Fund Balance:                 | \$ 7,798 |
| Notes Receivable Fund Balance | \$ 5,790 |



## ARLINGTON ASSOCIATION, INC.

### PURPOSE

The purpose of the Arlington Association as stated in its articles of incorporation is to promote a closer relationship among the faculty, staff and alumni of Eastern Kentucky University through the operation of a club which provides organized programs of social and recreational activities, and in so doing, to create a better understanding of the educational activities and opportunities at the university.

### GOVERNING STRUCTURE

The Arlington Association is governed by a 22-person Board of Directors, eleven of whom are elected from the membership of the Association by the total membership. Eleven positions on the Association Board of Directors are reserved for Eastern Kentucky University personnel. These ex-officio members include the:

- President of the University;
- President of the Alumni Association;
- President of the EKU Women;
- Treasurer of the University;
- Director of Purchases and Stores;
- Director of Personnel Services;
- Vice President for Public Affairs;
- Director of Alumni Affairs;
- Vice President for Academics;
- Chairman of the Faculty Senate; and
- Executive Assistant.

The president of Eastern Kentucky University is the ex-officio president of the Arlington Association. The elected officers are:

- Chairman;
- Vice Chairman;
- Secretary; and
- Treasurer.

The officers are elected by the Board of Directors from the membership of the Board of Directors.

### WHEN FORMED

The Arlington Association was incorporated on May 20, 1969, as a non-stock, non-profit

corporation under Chapter 273 of the Kentucky Revised Statutes. Membership in the association is available to eligible alumni, faculty and staff persons, and Century Club members of Eastern Kentucky University. The association also has honorary memberships as designated by the Board of Directors.

The Arlington Association is not located on the Eastern Kentucky University campus. The Association receives its funds from membership dues, food sales and other miscellaneous income. The Association is self-supporting. Under a management agreement executed between the University Board of Regents and the Arlington Association Board of Directors, the Arlington Association reimburses the university for all support, including administrative expense, of services performed by the University for the Association. These include the reimbursement of payroll expenses (for convenience Arlington salaries are run through the University's payroll system), and any other expense that the University might incur relative to Arlington. The University owns the Arlington property and is concerned with its proper maintenance and upkeep. Any repairs performed at Arlington by University personnel are, however, paid for by the Arlington Association.

## KENTUCKY STATE UNIVERSITY FOUNDATION, INC.

### I. GENERAL INFORMATION

#### A. Purpose

The purpose of this Foundation according to the Articles of Incorporation is to:

receive contributions, gifts, grants, devises, or bequests of real or personal property or both from individuals, foundations, partnerships, associations, government bodies, and public or private corporations, and to maintain, use, and apply such property and income therefrom exclusively for the benefit of Kentucky State University, or of any student, faculty, or staff member therein as such, or any line of work, teaching, or investigation.

#### B. Board Structure

The Board of the Foundation is not directly controlled by the University.

##### 1. Board of Trustees (36 members)

- a. President of the University (ex-officio)
- b. Thirty-five other members
- c. Trustees are elected by the Board and serve three-year terms. Trustees may succeed themselves on the Board.
- d. The KSU Foundation has 36 board members. Nearly all members are donors active in fund raising or have some expertise useful to the foundation. The executive committee members live within the central Kentucky and Louisville regions so they can meet frequently. Even though it is not specified in the bylaws, the board has alumni representation (16-alumni nominations are submitted by the alumni association), regent representation (3), and occasionally a KSU faculty or staff member.

- e. The Board is self-perpetuating and selects members from the community.
2. **Officers**
- a. President
  - b. Vice President
  - c. Secretary
  - d. Treasurer
  - e. Executive Secretary (Kentucky State University employee)

The Executive Secretary, signing alone, is authorized and empowered to execute, in the name of the foundation, all routine instruments arising in the day-to-day operation of the business of the foundation.

3. **Four Standing Committees**

- a. **Executive Committee**—(consists of officers of the foundation, Executive Secretary, and four additional members elected by the Board of Trustees). The executive Committee shall exercise the authority of the Board of Trustees to manage the affairs of the foundation between meetings of the Board of Trustees.
- b. **Investment Committee**—(consists of the President, Treasurer, Executive Secretary, and two additional members elected by the Board of Trustees). The Investment Committee shall exercise the authority of the Board of Trustees to manage the various funds of the foundation.
- c. **Grants Committee**—(consists of the Treasurer and four additional members elected by the Board of Trustees). The Grants Committee shall exercise the authority of the Board of Trustees to receive and take action on all requests for funding by the University.
- d. **Fund Raising Committee**—(consists of the President of the University, a member of the Executive Committee, and five additional members elected by the Board of Trustees). The Fund Raising Committee shall exercise the authority of the Board of Trustees to develop plans and provide the leadership for the implementation of fund raising activities, with particular emphasis on major gifts, which will enable the University, through the foundation, to achieve its goals and objectives.

C. **When Formed**

The Kentucky State University Foundation was incorporated on July 31, 1968.

D. **Scope of Activity**

The foundation's activities involve receiving and soliciting gifts and contributions used for the benefit of Kentucky State University. The major areas of support include:

- a. scholarships
- b. Foundation Loan Program
- c. additional volumes for Blazer Library
- d. special support for Academic Departments and Programs of the University
- e. purchase of equipment
- f. travel for faculty, staff and students
- g. student recruitment
- h. institutional marketing
- i. intercollegiate athletics
- j. purchase of vehicles
- k. campus beautification
- l. lecturers
- m. faculty fellowships
- n. other restricted purposes

#### E. Staffing

The Executive Secretary of the foundation board spends 40% of his time on foundation work. He is a KSU employee who is also Assistant to the President for University Relations. His secretary is a KSU employee and spends 40% of her time on foundation work. A full-time bookkeeper is the only current salaried foundation employee. It is the intent of the KSU Foundation to eventually pay the university for all of the time its employees spend on foundation work.

## II FLOW OF FUNDS

#### A. Revenues

##### 1. Sources of Revenue

- a. Interest and dividends earned on investments
- b. Gifts and contributions
- c. Grants
- d. Fees for administration of student loan fund (\$1 per loan)

##### 2. Receipts and Purpose of the Foundation

Receipts are closely tied to the purpose of the foundation.

### 3. Policy on Gift Acceptance

A new policy on gift acceptance is currently being developed by the Board. Right now the executive secretary can accept tentatively gifts up to \$50,000 without board approval. However, final acceptance must be formally ratified by the executive committee. Some members would like to see the limit raised to \$100,000. Gifts totaling over \$50,000 can only be accepted by the full board. Two special meetings of the full board have been convened for this purpose in addition to their regular annual meeting in May.

With the recent purchase by the foundation of a MagCard and Lanier word processing system, a 24-48 hour receipt acknowledgement policy is now in effect. As donations are solicited through the mail and later received, letters acknowledging receipts are electronically prepared in advance to expedite the foundation's receipting process.

On rare occasions gifts to the foundation are turned down, due to the fact that a board evaluation has found them controversial or not to have potential for a satisfactory return on investment.

Nearly all gifts to KSU are directed to the foundation staff for proper receipting and accounting.

Gifts given for a designated purpose are monitored by a designated project director and the Foundation's Executive Secretary. In fact, no expenditure of gift or grant money can be made without the Foundation's Executive Secretary countersigning each check. Interim reports, if requested or required by the donor, are prepared by the project director in conjunction with the foundation's Executive Secretary. An in-house tickler file is also set up to show in advance when reports are due.

General reports of donors are made in the quarterly KSU Alumni, donors and friends publication *Kudos* and the foundation's annual report.

### 4. Identity of Funds

All restricted funds are maintained in separate accounts and are identifiable by their sources.

### 5. Auxiliary Operations

The KSU Foundation has no auxiliary operations.

## B. Disbursements

1. **Acquisition of Capital Items (Purpose)**—Most capital expenses have included furniture, awards, and electronic word processing equipment for fund raising purposes. If vehicles are received or purchased by the foundation, they are immediately deeded to the university.

2. **Operation Expenses (Foundation Administration)**—Operating expenses include office supplies, salary and benefits for one full-time bookkeeper, travel for the executive secretary, an annual audit, Annual Fund expenses, postage and printing.

3. **Operation Expenses (Foundation Source)**—The source of funds for these operations are mixed in KSU's unrestricted fund. The sources are a combination of interest and dividends from investments and gifts and contributions.
4. **Operation Expenses (Auxiliary Operations)**—The KSU Foundation does not have auxiliary operations.
5. **Expenditures Not Permitted by Imprest Authority**
  - a. Travel advances to faculty and staff
  - b. KSU Foundation Loan Fund (students)
6. **Expenditures Falling Under the Model Procurement Code or Personal Services Contracts**

Nearly all KSU Foundation expenditures are the types addressed by the Model Procurement Code or Personal Service Contract statutes, but as a private corporation the Foundation is not required to adhere to KRS Chapters 45 and 45A.

The current KSU Foundation policy on expenditures is explained below:

Final responsibility for operating expenditures rests with the foundation's Executive Secretary. Other expenditures are approved by the Grants Committee.

The Board of Trustees keeps a record of its proceedings and makes an annual report to the Board of Regents of Kentucky State University.

The board approves expenditure policy and some expenditures are predetermined based on the requirements and obligations of grants.

Overall policy and procedure for expenditures comes from the foundation board, the KSU Business Services Office, and advice from annual audits.

Funds maintain their identity by source and expenditure only if requested by the donor.

7. **Investment Policy**

An investment policy is now being formulated. The board has an Investment Committee that meets quarterly to direct the investment of liquid assets such as CD's, T-bills, and federal agency notes.

Stock is being recommended by the Executive Secretary as the basis for an endowment fund. Currently, the investment advisory firm of Blackburn and Sanford in Louisville directs the exercising of stock options at the approval of the Investment Committee Chairman as stated in the contract. This firm receives a commission each time an option is exercised. Farmer's Bank and Capital Trust Company serves as the custodian of the securities and receives an annual two percent fee based on the aggregated amount invested. Some investment money is also deposited in the four Frankfort financial institutions in the form of CD's.

## 1981 Investments

|                   |  |
|-------------------|--|
| Corporate Stock   | \$79,493 (Ashland Oil,<br>Standard Oil of Ohio,<br>Haliburton, Nabisco,<br>Louisville Cement,<br>Third National Corp.) |
| Savings           | \$203,198 (CD's, T-bills,<br>Federal Agency Notes)   |
| Total Investments | \$282,691  |

### 8. Policy on Loans and Scholarships

Loans are available for students up to \$75 for a period of two to sixty days. There is a one-day waiting period and a one dollar service charge to cover costs of processing. The loan application the student fills out must state the reason for the loan and how they plan to repay the loan. The cashier's office checks the student's records for any outstanding bills. No interest is charged.

Most scholarships are already restricted in terms of their purpose, amount and eligibility. The board's Grant Committee oversees all scholarships awarded through the foundation. The committee exercises its greatest oversight in determining the guidelines for unrestricted scholarship monies, such as the university or general scholarship.

### 9. Compensation of Foundation Staff

One full-time bookkeeper's salary with benefits is being paid by the foundation. The Executive Secretary spends 40% of his time on foundation work and his secretary spends 40% of her time on foundation work. They are both Kentucky State University employees.

10. It is the intent of the KSU Foundation to eventually begin reimbursing the university for foundation expenses and staff now being supported by the university.

The KSU Foundation currently has no policy on indirect costs.

## C. Transfers

### 1. Direct Payments to the University

Postage and printing.

### 2. Receipts from the University

Not applicable.

### 3. Form of Transfer

Travel advances to faculty and staff are paid directly.

## D. Reporting

All audits on major foundation activities are public and available to the Council on Higher Education and other state agencies. Detailed monitoring of KSU Foundation expenditures and receipts is conducted by the KSU Director of Business Services, the KSU Foundation staff, and the firm which conducts annual audits.

## FINANCIAL SUMMARY

|  |           |
|--|-----------|
| Total Revenues for FY 81   | \$199,233 |
| Total Expenditures for FY 81   | 85,700*   |
| Total Fund Balance for FY 81   | 15,227    |
| Total Disbursements to University for FY 81<br>(W. K. Kellogg Grant and grants for University<br>programs/students/activities) | \$98,305  |

\* Excludes disbursements to the University.

## KENTUCKY STATE UNIVERSITY ALUMNI ASSOCIATION

NOTE: Bernard Taylor of Kentucky State University has informed LRC staff that the KSU Alumni Association is currently in the process of incorporating. The following comments are based on the Association's proposed constitution.

### PURPOSE (stated)

To promote the highest interest of the University and its alumni; to keep the two in close touch and harmonious cooperation; to perpetuate and enable the highest traditions and ideals of Kentucky State, and to keep the 'Kentucky Spirit' moving and flowing at full-tide wherever its graduates are found.

### AUTHORITY

KSU Alumni Association Proposed Constitution; Articles of Incorporation (yet to be drafted)

### GOVERNING STRUCTURE

#### I. Executive Committee:

- A. The Executive Committee will consist of all elected officers of the National Body; the presidents of all regional organizations and the elected member-at-large, past presidents and one regional delegate from each active region appointed by the national president.
- B. Its duties are to see that all matters and business of the National Body are put into effect and completed. The meetings of the Executive Committee shall be called by the Executive Officer when necessary.
- C. The Executive Committee shall have the authority to act in emergency cases for the National Body.

#### II. Membership and Donations

- A. Any person who attended Kentucky State University at least one semester is eligible for membership.



- B. Membership is annual based on established dues (currently \$10).
- C. All graduating seniors receive a complimentary one-year membership card.
- D. **Associate Memberships.** All persons who are interested in the activities and welfare of the University and Alumni Association may become associate members, by paying dues annually. This will entitle them to all privileges except holding national office.
- E. **Honorary Member.** Outstanding individuals may be recommended by the Executive Committee as honorary members to the general lobby.

Kentucky State University does not control the KSU Alumni Association or provide financial assistance or resources except for use of University facilities for periodic Alumni Association meetings and activities.

## MOREHEAD STATE UNIVERSITY FOUNDATION, INC.

### I. GENERAL

#### A. Purpose

Stated—"to do and perform all things necessary for the development, growth, expansion, progress, the accomplishment of educational objectives: the development of the physical plant, the improvement of the faculty, and aid to the student body and alumni of MSU."

#### B. Governing Structure

The Board membership is interlocking with MSU Board of Regents, but a majority of members are selected by the Foundation itself.

##### 1. Board of Trustees, including as specified in the articles of incorporation:

- a. President of MSU
- b. Three staff and faculty members
- c. Chairman of the Board of Regents
- d. One member of Board of Regents
- e. Three alumni of MSU

Others, up to 15, may be added by the first five to include:

- a. President of the MSU Alumni Association
- b. President-elect of MSU Alumni Association
- c. Chairperson of the Eagle Athletic Fund Advisory Board
- d. Vice-Chairperson of Eagle Athletic Fund Advisory Board
- e. Chairperson of MSU Scholarship Committee
- f. President of MSU Parents Association

These members may be selected from the community-at-large.

**2. Officers**

- a. President-MSU President
- b. Vice President-chosen from membership
- c. Secretary and Treasurer-may be combined
- d. Executive Director-employed and paid by the Foundation Board of Trustees.

**C. Formed**

Formed in 1979.

**D. Scope of Activity**

1. aids the University in growth and development
2. solicitation of gifts
3. provides financial aid to students
4. conduit for private gifts to be used by the Parents Association, Scholarship Fund, etc.

**E. Staffing**

The Executive Director and Treasurer are paid by the Foundation.

**II**

**FLOW OF FUNDS**

**A. Revenues**

1. Money is generated only through gifts and contributions to the Foundation and liquidation of surplus assets.
2. The Foundation accepts almost any gift. Primarily, donations have been monetary but the Foundation has also accepted gifts of "horses, prints and farm equipment."
3. No funds are "co-mingled." Each fund maintains its own identity. The Funds are: Alumni Projects Fund, Eagle Athletic Fund, Greatest Needs Fund, Parents Fund, Scholarship Fund, other designated gifts, and gifts in-kind.
4. The MSUF has no auxiliary operations.

**B. Disbursements**

1. The only capital items purchased are for instructional purposes, such as microscopes. Other capital items currently owned are gifts.
2. Since no audit was available, it is not clear how that amount relates to

the total fund balance of over \$200,000. It appears for operational purposes \$31,016 was received from contributors and \$10,149 was spent for operations, with \$20,868 as a total amount in "various accounts."

3. Approximately \$30,000 this year was allocated for salaries, travel and support services. The net remainder was available for promotion purposes.
4. Investments are made by the Budget and Investment Committee. Currently investments are made in relatively small amounts in FDIC insured Certificates of Deposit. The deposits are timed to come due twice a year when scholarship monies are paid out.
5. As a private corporation, MSUF is not bound by state purchasing procedures.
6. The Foundation makes no loans. The determination of scholarship funding is made each year, and is contingent upon contributions and "greatest needs" allocations. The amount of funds earmarked for scholarships varies from year to year due to fluctuations in contributions. The Scholarship Committee selects recipients for Foundation scholarships.
7. All staff are paid by the Foundation.
8. There is no indirect cost policy. The foundation rents office space from the University.

#### C. Transfers

1. The Foundation makes no direct transfers to the University. Only payments are reimbursements for support services.
2. The Foundation gets money from the University only through reimbursement (e.g., if the University received a donation, part of which was specified for Foundation use, then the University would reimburse the Foundation for that amount).

#### D. Reporting

Quarterly and annual reports are made to the Foundation Board of Directors. The Executive Director and Executive Committee meet often (almost weekly) to discuss Foundation activities. Audits are to be performed; however, to date none have been prepared.

|                                       |                                     |
|---------------------------------------|-------------------------------------|
| Total Revenue FY 81                   | \$31,016 (9/80) + \$267,887 (FY 81) |
| Total Expenditures FY 81 (operations) | \$10,148                            |
| Total Fund Balance FY 81 (gifts)      | \$200,037                           |
| Total Disbursements (to university)   | Not Available                       |

#### MOREHEAD ALUMNI FOUNDATION, INC.

The Alumni Foundation was established in 1961. It is incorporated and has no bylaws. It has historically been inactive, having no members or receipts. This group now functions partially as a MSU account under the name "Alumni Association." It is a part of the regular MSU accounting system, and is audited annually with the remainder of the MSU accounts. Its purpose now is to act as a conduit for disposal of some MSU surplus land.

Any revenue generated by the disposal of this property is deposited with the Department of Finance in the Capital Construction Division. Since this is a University account and subsequently falls under the auspices of MSU itself, the activities are overseen by the Board of Regents of Morehead State University.

The Morehead Alumni Foundation handles the disposal of some property located in Morehead. It is otherwise inactive.

The Alumni Association operates now as a restricted agency account under the auspices of the University. The Alumni Association is not incorporated and is not a legal entity.

## **MURRAY STATE UNIVERSITY FOUNDATION, INC.**

### **PURPOSE**

**STATED:**—"to do and perform all things necessary for the development, growth, expansion, progress, the accomplishment of educational objectives, the development of the physical plant, the improvement of the faculty, and aid to the student body and alumni . . . ."

### **GOVERNING STRUCTURE**

#### **I. Board of Trustees consisting of fifteen members. The fifteen members shall include the following:**

- A. President of the University
- B. Two faculty or staff
- C. Two alumni

#### **II Officers**

- A. President (President of the University)
- B. Vice President (member of Board of Trustees)
- C. Secretary-Treasurer

#### **III Six Standing Committees**

- A. Executive Committee—at least five members of the Board of Trustees. President serves as chairman.
- B. Finance Committee—at least three members of Board of Trustees.
- C. Investment Committee—two members of the Board of Trustees who, along with two members of the Board of Regents, comprise the Joint Investments Committee of the University.
- D. Nominating Committee—the President and two other members of the Board of Trustees.
- E. Audit Committee—three members of the Board of Trustees (excluding the President).

**F. Other Committees—as determined by the Board of Trustees.**

The foundation's Board of Trustees is self-supporting. Three of the fifteen members are university employees.

**WHEN FORMED**

The Murray State University Foundation was incorporated on May 20, 1946 as the Murray State College Foundation, a domestic, non-stock, non-profit corporation organized for educational and scientific purposes. The name of the foundation was changed to the Murray State University Foundation by an amendment to the Articles of Incorporation on September 26, 1966.

**SCOPE OF ACTIVITY**

1. Purchase, lease, receivership, ownership, sale or conveyance of real and personal property of all kinds.
2. Receipt (by gift, bequest, devise, grant or purchase) and retention of any real or personal property and use or disposal of same for purposes of the corporation.
3. Administration of private and federal grants awarded to the university and to the Foundation.
4. Receipt and administration of donated funds restricted in purpose and use by donors.
5. Administration of short-term loan program for the benefit of faculty, staff and students.

**STAFFING**

The foundation has an administrative staff consisting of:

1. Executive Director (Thomas B. Hogancamp)
2. Secretary Treasurer of the Board (Joanne Cohoon)
3. Bookkeeper (Dorothy Barrow)

**A. REVENUES**

1. **Contributions**—Most of the cash contributions (gifts) received by the foundation carry restrictions relative to use. These funds are accounted for in the "Restricted Fund" account.
2. **Indirect Costs**—Since 1957 the foundation has administered many of the federal and private grants awarded to the university. In fact, some grants are made in the name of the foundation rather than the school. All costs for grants administered by the foundation are borne by the foundation. The foundation collects indirect costs for administration of some of the grant programs. In fiscal year ended 6/30/81, forty percent of the indirect costs collected from grants having indirect cost provisions were returned to the university; more specifically, to the academic college from which the grant proposal originated.

3. **Lease Income**—The university leases an executive car from the foundation and a boat which is used in the Commercial Fisheries, Cumberland Mussel Survey, and Fish Attractor Grant programs. The foundation owns both the automobile and the boat. Upon termination of the lease the boat will become the property of the university.
4. **Advances and Loans Payable**—The foundation periodically makes loans or advances to various grant programs which it administers pending receipt of actual funds from the federal government. The foundation's unrestricted fund is reimbursed for the advances.

The foundation purchases various properties on behalf of the university to hold until such time as the university can assume ownership of the property. As of June 30, 1981, \$88,365 had been borrowed from MSU Agency Funds for the foundation to purchase three parcels of property. These were the Cutchin property (2 parcels) and the Wilson property (1 parcel). These properties are still in the process of being purchased by MSU.

5. **Interest Income**—The foundation receives investment earnings from its two general investment pools. The earnings are prorated to the restricted and unrestricted accounts in the investment pools. Interest income is also received from a foundation money management account, a NOW checking account, and a savings account.

## APPLICATION OF REVENUES

Revenues are closely tied with the purpose of the foundation.

## POLICY ON ACCEPTANCE OF GIFTS

The policy on the acceptance of gifts by the foundation is stated in sections (b) and (f) of Article V, Powers, of the Articles of Incorporation. The Executive Director is authorized to accept all gifts, provided that they adhere to IRS guidelines and that any restrictions or limitations attached to the gift fall within the powers of the corporation and previous board actions. The approval of the foundation Board of Trustees or the officers is not necessary for routine gifts.

Upon the request of the university Board of Regents, the foundation will administer an unrestricted gift to the university. Title to such gifts, however, remains with the university.

## IDENTITY OF FUNDS

Unrestricted funds received by the foundation are identifiable upon receipt but lose that identity when accounted for in the foundation's General Foundation Account. General Foundation Account funds include unrestricted cash contributions; indirect costs from grants; income from leases; repaid loans, advances and expenses, and interest on unrestricted pooled investments.

All restricted funds are maintained in separate accounts and maintain their identity by source. Interest earned from investment pools is prorated back to each separate account. Restricted fund money includes contributions to individual scholarship accounts and loan programs, private and federal grants, and prorated interest from pooled investments.

## AUXILIARY EXPENSES

The foundation operates the University Bookstore and is in the process of constructing a golf course.

**Golf Course.** In September, 1979, a 173-acre farm was donated to the Murray State University Foundation by Mr. L.D. Miller, Jr., with the stipulation that the foundation develop a golf course on the land in honor of the donor's deceased wife. It was further stipulated that ownership of the land would be transferred to the First Baptist Church of Murray, Kentucky, if a golf course was not developed within a ten-year period. (On July 21, 1982, the reverter clause was removed from the land conveyance by Mr. Miller, with concurrence by the First Baptist Church of Murray, and the land conveyed to the Foundation without restrictions.) The appraisal value of the land when received by the foundation was \$173,000.

On July 15, 1981, the Executive Committee of the Foundation Board of Trustees accepted a bid for \$720,300 for construction of the Frances E. Miller Memorial Golf Course. Unrestricted certificates of deposit owned by the foundation were pledged as security for \$1,000,000 line of credit from two Murray, Kentucky banks. June 30, 1981 financial records indicate that no funds had been drawn from the line of credit and that only \$550,000 is anticipated to be borrowed during fiscal years 1982 and 1983.

The construction of the golf course is being financed by the foundation through private gifts and profits from the University Bookstore. Actual cash expenditures as of June 30, 1981, totaled \$36,446.22 for surveying, engineering, land clearing, and other costs associated with initial planning and construction prior to letting a construction contract. A completion date for construction of the golf course has been set for 1983. It is anticipated that construction costs will be completely paid for in 1988.

**University Bookstore.** In April, 1979, the Murray State University Board of Regents authorized a transfer of the total operations of the Campus Bookstore from the university to the Murray State University Foundation. This action followed a March 29, 1979, transfer of \$40,613.35, representing bookstore profits for fiscal year 1973-74, to the foundation. A formal agreement providing for the transfer of bookstore operations was entered into by the foundation and the university on September 15, 1979.

The written agreement called for:

- the foundation to maintain a bookstore inventory equal in value to that at the time of transfer, and that title to said inventory remain with the university;
- interest earnings at the rate of seven percent per annum on the fiscal year 1973-74 bookstore profits which were transferred to the foundation in March, 1979, and the inventory values owned by the university, until the added value of the inventory has been accomplished; and
- ownership of bookstore inventory and inventory funds remain with Murray State University and that the transfer be "mutually understood and agreed to be a transfer of control and beneficial use only."

The contract does not call for a specific use of bookstore profits by the foundation. Currently bookstore profits are restricted for use in construction of the Frances E. Miller Memorial Golf Course.

The inventory and inventory funds transferred to the foundation under the agreement are valued at \$404,850.60. June 30, 1981, financial reports indicate that \$4,300.08 interest on fiscal year 1973-74 net profit has been accrued. (In the formal-agreement transferring bookstore operation, the foundation agreed to pay seven percent interest on the 1973-74 net profit plus \$4,100 held for the purchase of inventory.) In addition, \$5,386.55 from the sale of certain fixtures from the former bookstore location and \$31,000.08 representing cash in bank, accounts receivable, and purchase returns (less accounts payable) which were in ex-

istence at the time of the transfer have been added to the restricted inventory account to which the university holds title.

The University Bookstore is located in the University Center on the Murray State campus. A formal rental agreement between the university and the foundation calls for \$25,000 rent and \$15,000 utilities on an annual basis. The bookstore covers all of its operational expenses, including employee salaries. Net profits for the bookstore for fiscal year ended June 30, 1981, were \$187,168.70.

## **B. DISBURSEMENTS**

### **Acquisition of Capital Items**

The foundation's acquisition of capital items has mainly been for the purpose of holding property for the university until such time as state purchasing procedures permit the university to assume ownership. At the end of FY 1981, the foundation held \$88,365 worth of real estate for the university.

The foundation does, however, have a \$50,000 investment in real estate and a \$216,545.98 investment in the Miller Golf Course. The foundation owns \$2,100 in office equipment and an automobile, boat and trailer which are leased to the university. A gun collection given to the foundation is maintained in fixed asset accounts at a value of \$22,430.

### **Operational Expenses**

The only expenses accounted for in foundation financial reports which may be termed "operational" are expenses incurred for audits and internal control studies, travel and meetings and printing.

### **Operational Expenses—Source**

The foundation's main operating expenses are assumed by the university. The salary and benefits of foundation staff, estimated at \$36,000, are paid by the university. Foundation personnel estimate additional operating expenses to be approximately \$14,000 annually. The university provides office space for the foundation.

### **Investments**

The foundation uses an investment pool concept in order to obtain maximum return on investments. The investment pool includes foundation funds, MSU Central Agency Funds, and MSU Alumni Association funds.

The governing structure of the foundation includes an Investments Committee which consists of two members of the foundation Board of Trustees. These persons, along with two members of the Board of Regents, comprise the Joint Investments Committee of the university. The foundation Investments Committee recommends investment policies to the full Board of Trustees.

The foundation maintains a prudent posture for investment purposes, which does not include speculative purchases. Most of the foundation's investments are held in certificates of deposit. Stocks held by the foundation have been donated.

### **Loans and Scholarships**

The foundation does not make general loans to faculty and students. Members of



the faculty are eligible, however, to receive official travel loans of up to \$500 from the foundation.

The foundation administers approximately 150 scholarship programs. This is in addition to approximately 90 scholarships administered by the Alumni Association and a number of Presidential scholarships issued through the school. Unlike the Alumni Association, the foundation is not involved in the selection process for the individual recipients of the scholarships which it administers. A University Scholarship Committee at the university coordinates and selects the recipients of scholarships. No member of the foundation's governing structure or the foundation staff is a member of the University Scholarship Committee. Dr. Hogancamp does, however, sit in on committee meetings as an interested party. There is no administrative charge from the foundation to the university for administration of its scholarship program.

#### **Staffing—Compensation**

The foundation has a three-person staff, one of which is part-time. The staff consists of the Executive Director (who is part-time), an administrative secretary, and a bookkeeper. The foundation staff are university employees. There is no reimbursement from the foundation to the university for salaries and benefits. Dr. Hogancamp estimates that staff salaries total approximately \$36,000 annually.

#### **Indirect Cost Policy**

The foundation has no indirect cost policy relative to expenses incurred by the university on behalf of the foundation. Foundation personnel have indicated that such a policy is being established.

### **C. TRANSFERS**

#### **Receipts from the University**

The foundation purchases parcels of real estate which have been included in the university's land-use plan by the school's Board of Regents for retention until such time as the university can complete purchasing procedures through the Department of Finance. The foundation then sells the property at cost to the university.

Approximately twenty parcels of land have been purchased for this purpose over the past ten years. In September, 1979, the foundation received \$270,900 from the university for the transfer of certain real estate held by the foundation. This amount represented the original cost of the property, plus an additional \$12,800 to cover costs related to holding the real estate. Currently the foundation is holding three parcels of real estate for the school. The foundation has borrowed \$88,365 from the university agency fund for the purchases. Agency funds consist of funds from various student and faculty organizations.

The university leases an automobile from the foundation for use as an executive car.

#### **Direct Payments to the University**

The foundation pays the university \$25,000 and \$15,000 respectively, annually for rent and utilities for the University Bookstore.

The foundation reimburses the university for the salaries of the bookstore employees.

### **Services for Which Reimbursement May or May Not be Made**

The foundation does not reimburse the university for provision of staffing, space and other operating costs.

The University does not reimburse the foundation for the use of sod, a storage building, housing properties, dirt storage, or for support provided in the areas of student recruitment, faculty research, and public relations.

The foundation pays insurance and appraisal costs for property purchased on behalf of the university and does not seek reimbursement from the school.

The foundation provided funds, \$15,000 and \$55,000, for the construction of two horse barns on the University Farm in support of the university's Horsemanship Program. One loan has been fully repaid. The remaining loan is being paid from stall rental fees and is scheduled to be fully repaid on January 1, 1991. Actual repayment is running ahead of the schedule.

### **Unreimbursed Services Provided to the Foundation by the University**

Staffing (estimated by university personnel at \$36,000)

Space (for conduct of foundation business)

#### **Form of Transfers**

All transfers of money between the foundation and the university are done by written agreement.

#### **D. REPORTING**

The foundation is audited annually by an independent auditor recommended by the Audit Committee and approved by the Board of Trustees. In addition, annual financial reports are prepared by the Foundation staff. These financial reports are submitted to each member of the foundation Board of Trustees. No formal report is made to the university Board of Regents.

#### **Total Revenues FY 1981**

|                                   |                       |
|-----------------------------------|-----------------------|
| Unrestricted Foundation Account   | \$ 200,323.93         |
| Federal, Private and State Grants | 1,893,377.88          |
| Restricted Fund Accounts          | <u>3,567,686.39</u>   |
| <b>TOTAL</b>                      | <b>\$5,661,388.20</b> |

#### **Total Expenditures FY 1981**

|                                   |                       |
|-----------------------------------|-----------------------|
| Unrestricted Foundation Account   | \$ 29,806.45          |
| Federal, Private and State Grants | 2,008,179.94          |
| Restricted Fund Accounts          | <u>3,518,423.27</u>   |
| <b>TOTAL</b>                      | <b>\$5,556,409.66</b> |

### **Total Increase in Fund Balances FY 1981**

|                           |               |
|---------------------------|---------------|
| Unrestricted Fund Balance | \$ 172,767.48 |
| Restricted Fund Balance   | 89,637.54     |
| Total Fund Balance        | 2,932,083.00  |

### **Total Disbursements to University FY 1981**

|                                  |              |
|----------------------------------|--------------|
| Rent and Utilities for Bookstore | \$ 34,485.46 |
|----------------------------------|--------------|

## **MURRAY STATE UNIVERSITY ALUMNI ASSOCIATION**

### **PURPOSE**

The purpose of the Murray State University Alumni Association is to organize and coordinate the efforts of former students and graduates in assisting the university, its students and alumni, and in promoting the welfare of the institution.

### **GOVERNING STRUCTURE**

The Alumni Association is governed by an executive council consisting of the officers of the association and fifteen additional members elected from and by the association as a whole. The specific makeup of the executive council is as follows:

1. President—elected by the membership of the association;
2. Treasurer-elect—elected by the membership of the association;
3. Vice President—elected by the membership of the association;
4. Secretary-Treasurer—appointed by the President of the University and approved by the Executive Council;
5. At least 15 additional members in good standing; and
6. Associate members—one from each recognized Alumni Club of the Association. These members have no vote.

### **WHEN FORMED**

An Alumni Association for the then-Murray State Normal School and Teachers College was formed on June 1, 1926. The present alumni association is a successor to that organization and operates under a constitution adopted February 1, 1964, amended July 1, 1966.

### **SCOPE OF ACTIVITIES**

1. Solicitation of funds for the educational purposes of Murray State University.
2. Maintenance of records and statistics on Murray State University graduates.
3. Arrangement of activities for reunions and homecoming activities.
4. Provision of scholarships for worthy and needy students.

The Murray State University Alumni Association is included as a budget unit in the university's accounts. The Association also raises funds through fee collection and contributions from among its membership. The association operates out of the General Services Building on the campus. Four full-time staff persons are university employees.

The University exercises control over Alumni Association expenditures and activities which are supported by state funds. The university does not control those funds which the association raises independent of the school.

The Alumni Association has a three-member standing Investments Committee whose members are elected by the Association's Executive Council. The Murray State University Foundation acts as custodian for certain unrestricted funds of the Alumni Association.

#### FY 81

|                |           |
|----------------|-----------|
| Total Receipts | \$ 87,000 |
| Fund Balance   | 506,000   |

#### MURRAY STATE UNIVERSITY CREDIT UNION, INC.

The Murray State University Credit Union is a member of the National Credit Union Association. Its members are employees of Murray State University. The credit union is governed by a Board of Directors, composed of faculty members at the university. The credit union is located in the General Services Building on campus. The school may provide a small amount of support with respect to some office supplies and forms. The credit union pays its own personnel.

#### NORTHERN KENTUCKY UNIVERSITY FOUNDATION, INC.

##### I. GENERAL INFORMATION

###### Purpose.

A. Stated . . . to provide general and specific services and material things necessary or desirable for the growth and development of Northern Kentucky University, or its successor institution, and encompass prospective students, students, and alumni; faculty and staff; and research, civic services, and cooperative educational programs.

###### B. Board Structure

1. Board of Directors consists of not less than five nor more than 100 persons. Five members constitute a quorum at any meeting of the Board of Directors. Vacancies are filled by a majority vote of the Board based upon the recommendation of the Executive Committee. Members from which Directors are selected are selected by the Board from the community-at-large. The University President is Chairman of the Foundation Board and a member of the NKU Central Administration staff is the Foundation President. These governance provisions are designed to keep the Foundation's focus on serving the university and under the control of the university. Of the foundation's thirty board members, roughly half are regents, but this is not a requirement in the articles or bylaws. People serve on the foundation's board based on their ability to

give money, raise money, or knowledge of and influence with those individuals and organizations who give money. Special expertise related to foundation projects is also sought for board members, such as engineering, land development, and finance. The foundation board is also a place where former regents can continue to be active in the university. Each year the entire board is up for re-election.

## 2. Officers

- a. Chairman
- b. President
- c. Vice President
- d. Secretary
- e. Treasurer

Each shall be elected by the Board of Directors. Such other officers as may be deemed necessary may be elected or appointed by the Board of Directors. (The President of the Foundation shall be elected from the Central Administration of the University.)

## 3. Committees

No standing committees are provided for in the bylaws or articles of incorporation, except for an Executive Committee (consisting of the officers and/or Directors of the Corporation).

The foundation board currently has four other committees: Finance; Building; Development Review; and Schoultise Property Development.

## C. When Formed

On November 23, 1970, the Northern Kentucky State College Research and Development Foundation was established under Kentucky Revised Statutes as a domestic non-stock, non-profit corporation. On July 1, 1970, this Foundation was incorporated. The Foundation's name was later changed to the Northern Kentucky State College Foundation, Inc., on February 16, 1972, and on May 10, 1977 to the Northern Kentucky University Foundation, Inc.

## D. Scope of Activity (as stated in Articles of Incorporation)

1. to employ any personnel . . .
2. to provide for membership . . .
3. to purchase, lease, receive, own, and to sell, lease, donate, and convey real and personal property of all kinds . . .
4. to borrow money and give its notes or other obligations therefor and to secure payment therefor by pledging, assigning, or mortgaging any property it may own or revenue it may reasonably anticipate . . .
5. to receive any donation(s) in the making of which the donor may direct

the purposes and uses for which said donation shall be applied. Then in that event, such donation shall be kept separate from the general fund of the Corporation and the same shall be applied as directed by the donor, provided said purpose does not conflict with the purposes of the Corporation . . .

6. to provide, with or without fee, administrative services necessary or desirable for implementation of privately or publicly derived educational support funds, grant awards, grants-in-aid, or agreements made to or with students, faculty, staff, alumni, or other appropriate individuals or organizations . . .
7. to make loans or grants through the University to students or faculty for educational purposes . . .
8. to enter into contracts with private and public entities for the purpose of conducting research, demonstrations, and developmental programs appropriate to the objectives of Northern Kentucky University, or its successor, and to provide such fiscal and administrative services as are required under said contracts . . .
9. to make grants in support of research and developmental programs or projects, for any part or all of the total cost . . .
10. to establish and negotiate agreements applicable to the Corporation's proprietary rights in copyrights and in patents resulting from its supported undertakings, and to receive as income, royalties from such copyrights and patents . . .
11. to do any or all other lawful acts reasonably necessary to carry out the purposes of the Corporation . . .

#### Current Projects and Activities

As the University's fund-raising agency, the Foundation solicits, records, administers, and acknowledges gifts in support of Northern Kentucky University, and is planning to develop a 70-acre Foundation-owned area of land adjacent to the campus with donated funds and a 8½ % mortgage secured by the land. The rental income from this development is designed to serve as the basis for a University endowment.

The first major business under development on the land is a national research and development facility for the Kroger Company. The Kroger Education Center, which is planned as an adjunct to the research and development facility, will require the addition of a quality motel for which letters have been sent to interested motel developers and chains.

Negotiations are also underway for business and banking developments. Other plans for property development include an office building for state and county government, shopping facilities, and a multi-family residential building. Between 600 and 1,000 persons are expected to be employed by non-residential developmental uses on the property, according to the Foundation.

Other current projects include (1) financial aid to students in the form of

scholarships, fellowships, and loan funds; (2) development and recognition of outstanding faculty (including a \$1,000 check presented to an outstanding faculty member each May; (3) presentation of a distinguished public service award to a northern Kentucky citizen (gold medallion, name on plaque, and lapel pin or pendant; (4) general enrichment; (5) support for the Provost's academic fund; (6) support for faculty research, leave time, course development, additional study, and preparation in emerging fields; (7) purchase of special collections or items deemed valuable in the pursuit of research projects or other phases of academic development; (8) provision of emergency loan fund for students; (9) operation of athletic housing facilities; and (10) lease of automobiles purchased by the Foundation to the University for presidential usage.

Fund raising revenues come from gifts from donors, receipts from vending machines (located in a 200-square-foot area on the first floor of the Louis B. Nunn Building, leased by the foundation from the University for \$200 per year since 1976), fund raising projects, including those sponsored by the Alumni Association and the Gold Club.

#### **E. Staffing**

No administrative staff is provided for in the Foundation's articles or bylaws, except that officers may be compensated for the performance of their duties for and on behalf of the corporation, as determined by the Board.

The Foundation's staff includes the Foundation President (a University employee who spends one-third of his time on Foundation work) and the part-time assistance of four University-employed assistants. Three other individuals work with Alumni Affairs and four of the University's financial affairs employees also help with the foundation. Staff are University employees and are paid by the University.

## **II. FLOW OF FUNDS**

### **A. Revenues**

#### **1. Sources of Revenues (see attached chart)**

- a. gifts and contributions
- b. vending machine commissions (located on property leased from the University)
- c. interest earned on investments
- d. rental income (athletic houses)
- e. fund-raising activities

#### **2. Receipts and Purpose of the Foundation**

Receipts are closely tied to the purpose of the foundation.

#### **3. Policy on Gift Acceptance**

Nearly all private money or in-kind contributions are a result of solicita-

tions by the foundation and thus are received by the foundation. Rarely is an unsolicited gift given to the university proper. When this happens the university will accept gifts.

On one recent occasion, the foundation turned down an in-kind gift of a building in Newport, Kentucky, because of the expense involved in maintaining, renovating, and protecting the facility.

If a gift is given for a specific reason or purpose the foundation will generally accept it (if it is a monetary gift), and then invest it. A joint meeting will be set up with the foundation president, the donor and the university person who would be overseeing the implementation of the gift's designated purpose to discuss how it will be used, or if it can be used for said purpose. If the gift can be used for a designated purpose, then whatever monitoring or reporting requirements the donor would like are set up. If the gift cannot be used for its designated purpose, the donor will be asked if he wants his initial donation back and/or the interest it has earned since being deposited with the foundation. Generally, donors permit the foundation to keep the gift.

The NKU's Bursar's Office and the comptroller manage and deposit all foundation monies. Receipts are made by the foundation staff.

#### 4. Identity of Funds

All restricted funds are maintained in separate accounts and are identifiable by their source.

#### 5. Auxiliary Operations

The foundation operates vending machines and rental property for use by the University.

##### a. Application of Revenues Over Expenditures

Most revenues are used to purchase the land (mortgage payable). Other expenses paid by the Foundation include awards, printing, insurance, legal costs, interest, college guests, scholarships, and a car.

##### b. Sources of Assets and Personnel

land (purchased by Foundation)  
building (purchased by Foundation)  
car (purchased by Foundation)  
personnel (University employees)  
administration (University employees)

### B. Disbursements

#### 1. Acquisition of Capital Items (Purpose)

a. Development of 70-acre high technology research and commercial park. The rental income from this park will be the basis of a university endowment.

b. Car leased to university president (to make money and provide a service).



**2. Operation Expenses (Foundation Administration)**

The only operational expenses listed in the audit for the administration of the foundation are for printing, legal fees, insurance, audit fees and travel. All other administrative expenses, such as personnel, are paid for by the university.

**3. Operation Expenses (Foundation Source)**

The sources of funds for printing, insurance, legal fees, audit fees, and travel are mixed in the NKU Foundation's Unrestricted Fund. The sources are a combination of interest, contributions, rental income, and vending machine income.

**4. Operation Expenses (Auxiliary Operations)**

The source of funds (interest, contributions, rental income, and vending income) for auxiliary operations is the NKU Foundation's Unrestricted Fund. The current NKU Foundation auxiliary operation expenses include: leased space for vending machines, maintenance of rental property, and limited administrative expenses for the 70-acre property development.

**5. Expenditures Not Permitted by Imprest Authority**

Travel advances to faculty and staff.

**6. Expenditures Falling Under the Model Procurement Code or Personal Services Contracts**

Nearly all NKU Foundation expenditures are the types addressed by either the Model Procurement Code or Personal Services Contract statutes, but as a private corporation the foundation is not required to adhere to Chapters 45 and 45A of the Kentucky Revised Statutes.

The current NKU Foundation policy on expenditures is presented below:

The responsibility for approving expenditures from the Foundation's approved operating budget is as follows: President of the Foundation or Secretary-Treasurer of the Foundation, up to \$500; President of the Foundation, over \$500.

The Board of Directors may authorize any officer to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation.

No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of the Board of Directors.

All checks, drafts, or other orders for the payment of money, notes, or other evidences of indebtedness issued in the name of the Corporation shall be signed by at least one (1) officer of the Corporation, that being either the President, Secretary or Treasurer.

## **7. Investment Policy**

The Foundation's Finance Committee makes investments. Most of the investments have been in land and a house (\$473,547) with the rest in U.S. government securities (\$91,892), CD's in various northern Kentucky banks (\$69,263), money market certificates (\$10,000), and marketable securities (\$1,524). The investment policy is to obtain the maximum yield possible on investments that are safe and will be used for foundation's goal of supporting NKU.

## **8. Policy on Loans and Scholarships**

The university director of grants and work/study handles the disbursements for student loans and scholarships. The university Provost handles all disbursements for academic purposes (faculty, research, etc.)

## **9 Compensation of Foundation Staff**

The NKU Foundation does not compensate any employees. All staff are paid by the university. Each university employee who performs work for the foundation does other university work as well, such as teaching or other administrative duties.

## **10. Policy on Indirect Cost**

The NKU Foundation has no indirect cost policy. The NKU Foundation does not presently receive research grants.

## **C. Transfers**

### **1. Direct Payments to the University**

Rent for vending machine space and maintenance on athletic houses.

### **2. Receipts from University**

Rental income: car for use by the University President (\$330 per month paid to the NKU Foundation).

### **3. Form of Transfers**

Maintenance on the athletic houses is paid pursuant to a contract. Travel advances to faculty and staff are simple disbursements.

## **D. Reporting**

Detailed monitoring of NKU Foundation expenditures and receipts is conducted by the NKU Business Services Division, the NKU Foundation President, and the firm which conducts annual audits. The audits are public and are available to the Council on Higher Education and other state agencies.

Budgets are made annually by the Foundation's Finance and Executive Committees and presented to the full Foundation Board of Directors for approval.

| Financial Summary                 |           |
|-----------------------------------|-----------|
| Total Revenues for FY 81          | \$253,277 |
| Total Expenditures for FY 81      | 49,425*   |
| Total Fund Balance for FY 81      | 199,728   |
| Total Disbursements to University | 4,125     |

\*Excluding disbursements to the University.

## NORTHERN KENTUCKY UNIVERSITY ALUMNI ASSOCIATION

**NOTE:** This Association is currently in the process of revising their constitution and for the first time, drafting a set of bylaws.

### PURPOSE (stated)

The purpose of the Association shall be to reflect Alumni opinion, to serve as a channel of communication between Northern Kentucky University and its graduates and to promote the welfare of Northern Kentucky University, and bring together for a lifetime association, graduates of the University, same to be centered around the activities of the University.

### BOARD STRUCTURE

Northern Kentucky University does have limited control of the Alumni Association through its Director of Alumni Affairs (who sits on the Alumni Council) and the staff it provides for the Association. The governing body of the Association is the Alumni Council. Only active members of the Association may hold membership in the Council. Selection of Alumni Council members is made by majority of active alumni voting. Nominations to the Alumni Council are submitted in writing to the Nominating Committee between August 30 and September 30 each year.

#### A. Offices

Offices of the Association include the following:

1. President
2. Executive Vice President
3. Vice President of Financial Affairs (works closely with the Alumni Office concerning banking responsibilities and oversees the collection and disbursement of monies)
4. Executive Secretary

Election of officers is accomplished by plurality vote of Alumni Council members at the first meeting following installation. Ex-officio members of the Alumni Council include the Alumni Director of Northern Kentucky University, an assistant Alumni Director of Northern Kentucky University, the Student Government President and the Senior Class President. The Alumni Director has voting privileges; other ex-officio members do not.

Council memberships include nine generally elected council members and all council members serve for three-year terms.

The Alumni Director and other members of the staff of Alumni Relations are, as required in KRS 164.360(1), (2), appointed by the President and approved by the

Board of Regents of Northern Kentucky University, with due consideration given to the recommendations of the Alumni Council.

## **B. Membership**

Active members of the Association are those graduates who have received diplomas from Northern Kentucky University, as well as those who have attended the University for a minimum of one full academic year and are not presently Northern undergraduate students. First year's membership in the Association shall be free to all graduates who have received diplomas from Northern Kentucky University. Annual membership fee shall be \$2 for single membership. Annual membership fee for associate members shall be twice that of active members. Associate members of the Association are those individuals who do not qualify as per Article II, Section i, but are interested in associating themselves with the active alumni in their support of the University.

## **C. Committees**

The only standing committee is the three- to seven-member Nominating Committee. Other committees may be formed by a majority vote of the Alumni Council.

## **WHEN FORMED**

The Northern Kentucky University Alumni Association was formed in 1972.

## **SCOPE OF ACTIVITY**

1. General membership meeting (held annually)
2. Alumni Council meetings (held quarterly on the call of the President)
3. Fund raising
4. Awards

## **STAFFING**

Three Northern Kentucky University employees assist the Alumni Association by performing staff functions. The Alumni Association has no paid staff.

## **FINANCIAL INFORMATION**

The Alumni Association's monies are accounted for in the University's Agency Funds and the Foundation's Restricted Fund. Association dues are accounted for in the Agency Account, whereas Alumni gifts, contributions and money-making events are handled through the Foundation.

Only the Association dues account is listed below. The audit of Alumni monies is included in the University's Annual Audit Report.

### **Fiscal Year Ended June 30, 1981**

|                 |            |
|-----------------|------------|
| Balance Forward | \$3,985.65 |
| Receipts        | 4,359.50   |
| Disbursements   | 7,405.94   |
| Ending Balance  | \$ 939.21  |

## **UNIVERSITY OF KENTUCKY RESEARCH FOUNDATION, INC.**

### **PURPOSE**

To promote all educational purposes, scientific and literary, by:

- initiating, aiding scientific research;
- training persons for conduct of research;
- furnishing means by which such investigation may be conducted; and
- assisting in dissemination of knowledge by maintaining professorships, fellowships, scholarships, and publications.

### **BOARD STRUCTURE**

The Board is controlled by the University. The Board of Directors is made up of 9-12 members: President of the University, Vice President for Academic Affairs, Vice President for Business Affairs, Vice President of the Medical Center, and the Dean of the Graduate School. Others are elected to serve three years. Three members shall be members of the Board of Trustees of the University. Nine members shall be members of the staff of the University. All members not ex-officio are appointed by the Board of Trustees of the University.

An Executive Director of the Foundation will be on the Board. All appointees are appointed by the Board of Trustees, upon recommendation of the President.

### **WHEN FORMED**

The foundation was created in 1945.

### **SCOPE OF ACTIVITY**

Administration is handled through the Office of Sponsored Projects Administration, the director of which is a University of Kentucky employee. That director is also director of the UKRF, but is paid through the University. Then, UKRF reimburses the University for the actual full budget for the administration of the OSPA office. This administrator provides technical assistance in grant preparation. He assists in putting grant applications in the correct format and helps in determining the correct "thrust" of the application language.

Further, the office must coordinate the use of university resources that are obligated to proposed research projects, either in terms of required matching resources, simple indirect costs, or reallocation of resources to execute the project should it be awarded.

Primarily, UKRF is an accounting entity to maintain a focal point for contracted research, although staff does offer technical assistance services for the development, application and administration of contracts and grants.

### **STAFFING**

The UKRF has no staff of its own. It uses the staff of the Office of Sponsored Project Administration, for which the UKRF reimburses the University from indirect costs generated by UKRF and collected from research grants and contracts.

### **FLOW OF FUNDS**

## Revenues

Receipts come from five primary sources:

### FY 1981

|  |           |
|--|-----------|
| Federal research contract and grants               | \$20.5m   |
| State research contract and grants                 | \$11.3m   |
| Private research contract and grants               | (\$2,238) |
| Endowments, gifts (old or specifically designated) | \$.455m   |
| Interest income                                    | \$.441m   |
| Other  | \$.191m   |

Contracts for research are awarded either directly to the University or to UKRF. If contracts are awarded directly to the University, the contract funds go into a restricted account and are used (as is, of course, required by the grantor) only for the terms of the contract.

Often contractors require that the contract be with the research foundation; some require the contract to be with the University. Generally, research is contracted with UKRF, unless the grantor specifies otherwise. All funds currently going to UKRF are sponsored research contracts. Previously, some gifts were held in UKRF and those will continue to stay there.

Donations specifically designated to go to UKRF still are so allocated, but generally, donations and gifts go to the University for use as required.

All accounting for the foundation is done by the office of the comptroller, where accounting is done for the entire University and all its functions and departments. Accounting is done according to the American Institute of Certified Public Accountants Industry Audit Guide for Colleges and Universities.

### Gifts

Before gifts are accepted, they must be approved by the Board of Directors. No gift shall be approved which shall require payment of an annuity or other charge from the fund which may exceed the amount or agreed value so received and the income thereof.

### Disbursements

Disbursements must be made according to the terms of the contract and policies of the University, primarily salaries, expenses, and indirect costs to the University.

**Salaries.** Grants usually supplant professors' salaries to the degree that they are allocating time to fulfilling the contract rather than teaching. The grant does not increase salaries; however, it can be a source of summer salary if that professor does not teach in the summer. Grants provide additional resources for a professor's use (e.g., equipment or research assistants). Consequently, the proceeds of grants do not actually replace state funding for teaching purposes.

**Expenses.** The same terms of disbursement for expenditures that are permitted the University are permitted the Foundation as long as it is consistent with each particular contract. However, since the funds remain at the University

or the Foundation or are spent on a letter of credit basis, expenditures do not process through the state's disbursement system. Generally, purchases are actually made through the purchasing system used by the entire University. Departments are delegated small purchase authority out of their particular contract. Expenditures beyond that authorization must be reviewed and approved by the Board of Directors.

Indirect costs are determined on the basis of a budget prepared each year for the operation of UKRF and the general support provided by the University in the form of support personnel and general overhead costs involved in using University facilities for research. That amount was approximately \$3 million in both FY 80 and FY 81. Those funds are transferred through accounting entry from UKRF to the University rather than by contract.

The Investment Committee of the Board of Trustees of the University serves as the investment committee for the University of Kentucky Research Foundation. All endowment funds are therefore invested together in one pool, yet each fund's part of the pool is accounted for separately.

Endowment funds that were in UKRF prior to two years ago remain in UKRF, as do those endowments specifically designated to be placed in the UKRF. The value of the endowments as of June 30, 1981, valued as of the dates of the various gifts, is \$1,043,731.

Current funds of the foundation, that is grant and contract receipts temporarily idle and awaiting expenditure, are invested in the overnight investment program, along with funds of the University as a whole. Of course, funds are accounted for separately.

Earnings from the total overnight investment program accrue to the University's general fund.

It is unusual for the cash flow pattern of UKRF to allow investments of a six-to twelve-month period. Consequently, virtually all UKRF funds are invested in the endowment fund or the overnight investment program. However, if cash flows did permit short-term investment, again, those funds of UKRF would be invested along with those of the University as a whole.

## REPORTING

An annual audit is prepared by an independent certified public accountant firm. The reports are presented to the Board of Trustees, to the Council on Higher Education, and the Office for Policy and Management within the Finance and Administration Cabinet.

|   |                |
|---|----------------|
| FY 81                                       |                |
| Receipts                                    | \$33 million   |
| Expenditures                                | \$32.5 million |
| Fund Balances:                              |                |
| Accounts receivable and cash (unrestricted) | \$1,717,479    |
| Restricted funds                            | 6,439,305      |
| Endowment funds                             | 1,043,731      |
| Investment in plant                         | 2,487,144      |
| Transfer to University                      | \$3 million    |

|                         |                     |
|-------------------------|---------------------|
| Major property holdings | Main Chance Farm    |
|                         | Spindletop Farm     |
|                         | Research Facilities |

# UNIVERSITY OF KENTUCKY ATHLETIC ASSOCIATION, INC.

## PURPOSE

To promote athletics and physical culture.

## BOARD STRUCTURE

The Board of Directors is an interlocking Board consisting of the President of the University of Kentucky, the Vice President for Administration of the University of Kentucky, the Vice President for Student Affairs for the University of Kentucky, the Vice President for University Relations of the University of Kentucky, the Faculty Chairman of Athletics, the President of the K-Men's Association, and the Vice President for Business Affairs of the University of Kentucky, ex-officio; and fifteen appointive members to be appointed by the President, two of whom shall be members of the Board of Trustees of the University of Kentucky, seven of whom shall be members of the University of Kentucky faculty; two of whom shall be at-large members, and two of whom shall be full-time members of the University of Kentucky student body, appointed by the president for terms of one year each.

## WHEN FORMED

November 20, 1945.

## SCOPE OF ACTIVITY

Operate the total intercollegiate athletics program.

## STAFFING

All staff is hired by the Athletic Association except the Athletic Director and a half-time academic advisor. These staff are hired and paid by the University. Staff for the athletic programs and administration cost to the University was \$67,108 in FY 81.

## REVENUES

Sources of revenue are primarily mandatory student fees, ticket and promotion sales and tournament revenues. Revenues generated in FY 81 by football were \$4.1 million, and basketball \$1.8 million. The University contributes \$250,000 to the Athletic Association. Of that, \$133,000 is for women's athletic scholarships. The remainder, \$67,000, is a cost to the university for personnel in the Athletic Association.

The stadium is the property of the Commonwealth of Kentucky, being leased by the Athletic Association. Debt retirement on the stadium is paid partially by athletic receipts (\$354,278 in FY 81) in the form of rental payments, and partly by interest earned on a \$3 million state appropriation (1973) to be used as a means of debt retirement (\$245,686 in FY 81).

## DISBURSEMENTS

The UKAA expends funds to operate the athletic program. The expenditure policy of the association is to be consistent with that of the University as a whole. Budgeting, purchasing, and accounting services are provided by the University and are not reimbursed. Other services such as janitorial, maintenance of facilities, utilities, computer and printing services are provided by the University and the University is reimbursed for such.



Investment of gifts is managed through the comptroller of the University's office and is not managed by the association itself.

Expenditures for football were \$3.1 million in FY 81, and for basketball \$1.2 million, with other sports expending \$890,000. Administrative expenses totaled almost \$670,000. In total, revenues exceeded expenditures by slightly more than \$1.5 million. That amount was reserved for the plant fund to be used for future construction.

|   |               |
|---|---------------|
| FY 81                                       |               |
| Total receipts                              | \$7.6 million |
| Total expenditures                          | \$6.0 million |
| Fund balances:                              |               |
| Accounts receivable and cash (unrestricted) | \$492,104     |
| Investment in plant                         | \$2,457,218   |
| Disbursements to University                 | \$1.5 million |

#### UNIVERSITY OF KENTUCKY BUSINESS PARTNERSHIP FOUNDATION, INC.

##### PURPOSE

To solicit and receive gifts for the benefit of the College of Business and Economics.

##### BOARD STRUCTURE

The Board of Directors consists of 26 members: 20 are businessmen and women from the public; 2 are members of the University Board of Trustees; and the President of the University; Vice President of Academic Affairs; Vice President for University Relations; and Dean of the College of Business and Economics. Appointments are made by the President of the University upon recommendation of the Dean of the College of Business and Economics with approval of Board of Trustees.

##### WHEN FORMED

August 31, 1981.

##### SCOPE OF ACTIVITY

To collect funds in support of the programs of the College of Business. The University acts as fiscal agent for the Foundation.

No funds have been collected as of FY 81. The University provides budgeting and accounting services without reimbursement from the Foundation.

#### UNIVERSITY OF KENTUCKY ALUMNI ASSOCIATION, INC.

##### PURPOSE

Promote interests of the University of Kentucky, foster loyalty and interest among alumni.

##### BOARD STRUCTURE

President, Vice President, Secretary, Treasurer. President and Vice President are elected by general membership. Other officers are appointed by the President. The Executive Committee is composed of 13 members, 6 of which are appointed by the President. Presidents of all alumni clubs are ex-officio members of the Executive Committee. The University does not control the Board.

## WHEN FORMED

1933.

## SCOPE OF ACTIVITY

Activities include procuring funds, selling and owning property, publishing magazines, acquiring property by gift, and organizing alumni clubs.

## STAFFING

Payroll for FY 81 was \$170,562.

## REVENUES

Revenues of \$564,000 are generated from membership dues, alumni projects, gifts and university contributions. University contributions include the use of the university-owned Helen G. King Alumni House, which was built with funds raised by the Alumni Association. (Both the university alumni relations staff and the Alumni Association use this building.) The University pays for insurance on the building.

## DISBURSEMENTS

Expenditures of \$477,000 in FY 81 were made primarily for the operation of the Association, \$120,000 of which was paid by the University directly to university staff working in the area of alumni relations. Scholarships of \$3,700 were awarded (\$2,851 net) in FY 81.

Fund balances increased by \$86,709 in FY 81 (\$147,938 in FY 80). The Awards and Scholarship Fund had a balance of \$36,955 in FY 81, an increase of \$5,216. Other fund balances that increased in FY 81 are the Life Membership Fund (\$88,751 increase), Future Operations (\$5,789) and Special Project (\$10,860). The Century Fund decreased by \$8,850, and the Student Activities Fund decreased by \$14,877.

Funds are held primarily in certificates of deposit (\$189,450) and other investments made through an investment firm (\$689,355).

## TRANSFERS

The FY 80-81 audit incorrectly shows a transfer of funds to the Alumni Association. In fact, that \$115,375 is salaries for university staff working in alumni relations. The funds remain with the university. Utilities and insurance of the Alumni House are paid by the University.

## REPORTING

Annual private audits are prepared and provided to the University.

|                             |           |
|-----------------------------|-----------|
| Total receipts in FY 81     | \$564,020 |
| Total expenditures in FY 81 | \$477,311 |
| Fund balances:              |           |
| Cash (unrestricted)         | \$ 26,074 |
| Cash (restricted)           | \$860,212 |

## **McDOWELL CANCER NETWORK, INC.**

### **PURPOSE**

The purpose is to participate with the University of Kentucky in the planning and implementing of a cancer center education program and a cancer control program pursuant to two grants from the National Cancer Institute of the National Institute of Health. The programs are to foster research into causes, prevention, detection, diagnosis and treatment for cancer.

The University of Kentucky serves as fiscal agent for the corporation.

### **BOARD STRUCTURE**

The Board of Directors is appointed by the President of the University with the approval of the Board of Trustees. One-third of the Directors are full-time faculty members of the University, including the Vice President of the Medical Center, the Chairman of the Committee on Cancer of the Medical Center, and the Dean of the School of Medicine. Two of the Directors are the Fayette County Judge and the Commissioner of the Bureau of Health Services.

### **WHEN FORMED**

1975

### **SCOPE OF ACTIVITY**

The foundation performs education and research relating to cancer treatment.

### **STAFFING**

The foundation administrative staffing function is provided by the University.

### **REVENUES AND DISBURSEMENTS**

All financial activities are handled through the University accounts.

## **HEALTH CARE COLLECTION SERVICE, INC.**

### **PURPOSE**

The service provides a collection medium for delinquent hospital billings without using the name of the university.

### **BOARD STRUCTURE**

The Board of Directors is made up of five members appointed by the President of the University and all appointees must be employees of the University. Therefore, the Board is controlled by the University.

### **WHEN FORMED**

November, 1973.

## SCOPE OF ACTIVITY

The Health Care Collection Service collects delinquent bills of University Hospital. During the year the service keeps forty percent of all bills collected for its own operation expenses, and sixty percent is returned to the University. At the end of the fiscal year all revenues to the service in excess of that needed to operate the service are returned to the University. In FY 81 approximately 37 percent of collections were used for operation and 63 percent were returned to the University.

A separate collection corporation was formed because it was believed if fees were collected under a name other than that of the University, collection rates would improve.

## STAFFING

The staff consists of fifteen people, six of whom are actual collectors. Staff is paid out of the 37 percent of collections.

## REVENUE

All revenues are collections from overdue accounts receivable of the University Hospital. Physicians' private fees are not collected through this means.

## DISBURSEMENTS

Disbursements are made for operational expenses, including office space rental. The other primary disbursement is the transfer of funds collected to the University.

|                            |           |
|----------------------------|-----------|
| Receipts                   | \$754,638 |
| Expenditures               | \$754,638 |
| Fund Balance               | 0         |
| Disbursement to University | \$473,115 |

## FUND FOR ADVANCEMENT OF EDUCATION AND RESEARCH IN THE UNIVERSITY OF KENTUCKY MEDICAL CENTER, INC.

### PURPOSE

To promote the educational, research, and charitable purposes of the University of Kentucky Medical Center. Its primary function is to collect professional fees and gifts for the medical center.

It does not offer a means by which physicians may retain private practice income while using university facilities. Only university salaries and supplements through the university are paid.

### BOARD STRUCTURE

President of the University, Vice President for the Medical Center of the University of Kentucky, Chairman of the Executive Committee of the Board of Trustees of UK, and two members appointed by the Board of Trustees of UK. The Board, therefore, is controlled by the University.

### WHEN FORMED

November, 1959.

## SCOPE OF ACTIVITY

The Fund is an account entity managed and operated by the Treasurer (comptroller) of the University of Kentucky. The account records collections of professional fees primarily for dental and student health services. Some fees for medical services are still collected through the Fund, but most of that component is handled through the Kentucky Medical Services Foundation. The Fund also receives gifts and appropriations from KMSF for academic enrichment and for the purchase of malpractice insurance.

The Fund, then, supports instruction in medicine and dentistry. It provides public services in the areas of medicine and dentistry. It supports basic research and administrative and institutional support services for the University Hospital.

In FY 81, a grant to the University was provided (\$1,290,678) by the Fund and was used primarily for physician and dentist salaries and salary supplements.

## STAFFING

The Fund does not have its own staff. Funds are handled by the University at no specific cost to the Foundation (although all expenditures are for the benefit of the University).

## REVENUES

Sources of revenues include professional fees, gifts, endowment income and transfers from the Kentucky Medical Services Foundation. Gifts are received only when accepted by the Board of Trustees of the University.

## DISBURSEMENTS

Expenditures are made for primarily two purposes: the support of the operation and teaching programs of the Medical Center and an unrestricted grant to the University's general fund. There are no expenditures to operate the foundation itself. However, expenditures to generate the income are, of course, made. Administrative costs for collection and billings were \$76,749 in FY 81. Small scholarships are made from the fund (\$1,350 in FY 81). Investments are handled, again, through the comptroller of the University.

Transfers of funds to the University are not made pursuant to a contract.

## REPORTING

Annual audits of the Fund Account are conducted and reported to the Board of Trustees, Council on Higher Education, and Office for Policy and Management.

|   |               |
|---|---------------|
| Total FY 81 Receipts                      | \$2.7 million |
| Total FY 81 Disbursements                 | \$2.7 million |
| Fund Balances                             |               |
| Cash & Accounts Receivable (Unrestricted) | \$4,771,327   |
| (Restricted)                              | \$ 955,463    |
| Endowment Funds                           | \$ 52,369     |
| Transfer to University                    | \$1.3 million |

## KENTUCKY MEDICAL SERVICES FOUNDATION, INC.

## PURPOSE

- (1) To attract and retain quality staff to teach, conduct research and provide patient care through the provision of reasonable and competitive levels of compensation;

- (2) To improve patient care through the provision of incentives; and
- (3) To provide support within available resources to enable the College of Medicine to accomplish its educational, service and research goals. KMSF is actually a vehicle by which physicians (dentists are not currently in this plan) may augment their salaries based on their own productivity at no expense to the university. The plan is required of and available only to UK College of Medicine physicians.

## BOARD STRUCTURE

The Board is not directly controlled by the university. However, the Board is made up of university employees. The Board has ten members consisting of (1) the Dean of the College of Medicine of the University of Kentucky, ex-officio; (2) the Chairman of the Department of Medicine, Surgery, OB-GYN, and Pediatrics of the College of Medicine, ex-officio; (3) a member of the hospital-based faculty; (4) a member of the medical services faculty; (5) a member of the surgical services faculty; (6) one of the chairmen of the hospital-based departments; and (7) one of the chairmen of the departments not represented above.

There are four additional advisory directors: Vice President of the Medical Center, Associate Dean of Clinical Affairs, Director of Hospital Administration, and the Director of Finance of the College of Medicine.

## WHEN FORMED

The Foundation was formed on July 7, 1978. The University Board of Trustees approved contracting for the administration of the practice plan with KMSF. Existing medical faculty were given an option to participate at that time. New faculty must participate in the Plan.

## SCOPE OF ACTIVITY

All professional income is to be collected by the Foundation and paid into the plan. Certain other income is excluded: payments for occasional service to governmental agencies, prizes, royalties, university sponsored continuing education services, honoraria for lectures outside the university, special administrative stipends and non-professional related income generated on personal time.

A medical practice plan was authorized by the UK Board of Trustees. The University then contracted with the Kentucky Medical Services Foundation to administer that portion of the plan that included medical physicians who chose to participate, as well as new physicians. (The plan for physicians who did not choose to participate is administered by the Fund and operates differently.) A contract between the Foundation and UK exists and specifies the role of each party. According to the contract, the Foundation provides administrative services to the physicians' private practice plan. Services include (1) billing and collection for all services and income generated, except that the university will bill for institutional and certain professional fees and remit the professional component to UKMSF; (2) reimbursement to the university for expenses incurred by it in the production of clinical income (not to exceed \$1.5 million in FY 82); (3) reimbursement to the university for professional liability insurance (\$134,000); (4) personnel costs associated with program enhancements requested by the Foundation; and (5) reimbursement to the University for all "plan income" or each member's private income. The University purchases, in turn, certain services from the Foundation: (1) x-ray interpretation for University student health services (\$13,000 for FY 82); (2) harvesting transplantable kidneys (\$1,000 per kidney for FY 82); (3) the provision of diagnostic information (\$50 for listing, three cents per transaction for FY 82); (4) EEG interpretation for the University student health services (\$45/service for FY 82).

The Foundation will also pay to the Fund for Advancement of Education and Research in

the University of Kentucky Medical Center five percent (now three percent) of clinical income for an academic enrichment fund (\$898,736 in FY 81). The Foundation will hold in an account of its own, five percent (now seven percent) of clinical income, again to be used for academic enrichment.

## STAFFING

The Foundation employs an executive director and clerical staff. Office space is not provided by the University. The Foundation currently has a staff of approximately seventy people.

## OTHER

The University retains control over hiring of University physicians, use of facilities and medical records. The Foundation hires its own administrative staff. The Foundation agrees that the University may inspect the books of the Foundation and may audit the Foundation's books. The Foundation provides financial information to the University quarterly and annually.

## REVENUES

All revenue is generated from clinical income and interest income from temporary investments.

## DISBURSEMENTS

Disbursements are made for operating expenses (\$1.7 million in FY 81), physician supplemental salaries and fringe benefits (\$7.4 million), and other expenses. A significant portion of the income returns either directly or indirectly for the benefit of the Medical Center. KMSF pays to the University income to be used to pay (1) non-medical staff (technicians, etc.—\$1.35 million); (2) expenses incurred to generate clinical income (\$1.5 million); and (3) payment to the Dean's academic enrichment fund (\$.9 million). Indirectly, the University benefits from funds used to develop programs and equipment at the Medical Center. KMSF collects another sum to be used for the Dean's academic enrichment fund (equal to the direct payment \$.9 million in FY 81). In addition, a sum of \$3.3 million was used by KMSF to develop and supplement Medical Center programs among the various departments.

## TRANSFER OF FUNDS

The payments by KMSF to the University, the use of University facilities and services are provided per contractual agreement.

## REPORTING

Reports are prepared annually and transmitted to the University of Kentucky Board of Trustees.

|                                 |              |
|---------------------------------|--------------|
| FY 81 Receipts                  | \$19,398,884 |
| FY 81 Disbursements             | 18,442,152   |
| FY 81 Fund Balances             |              |
| Board designated (Unrestricted) | 1,202,379    |
| Investment in plant             | 798,672      |
| Disbursements to University     |              |
| Direct                          | 3,942,051    |
| Indirect                        | 3,600,592    |

## **SPINDLETOP HALL, INC.**

### **PURPOSE**

The purpose of Spindletop Hall, Inc., is to foster closer relationship among the faculty, staff and alumni of the University of Kentucky through an organized program of educational, social and recreational activities.

### **GOVERNING STRUCTURE**

The corporation is governed by a Board of Directors selected from the membership and composed of seventeen members. Sixteen of the members are elected from the membership by the members. The seventeenth member is the President of the University, but he is a non-voting member of the Board.

The members of the Board are in equal numbers as nearly as possible representative of alumni, and faculty-staff of the university.

Members are alumni in good standing, faculty and staff of the university.

The officers of the Board, President, Vice-President, secretary and treasurer are elected by the board members.

### **WHEN FORMED**

The corporation was formed in April, 1967. Prior to that an organization known as Spindletop Hall existed. It had been formed in 1962.

### **SCOPE OF ACTIVITY**

Spindletop Hall is located on 52 acres of land that is owned by the University of Kentucky Research Foundation. Spindletop Hall, Inc. leases the property from UKRF for maintenance and insurance costs. The club wholly operates and maintains the property.

The source of revenues is membership dues and fees for services.

### **OTHER ORGANIZATIONS**

Hospital Hospitality House of Lexington, Inc.—Corporation organized to provide housing for families of patients at Lexington hospitals. The house is a leased building belonging to the University of Kentucky. Lease payment is one dollar per year.

St. Agnes House, Inc.—Facility leased from the University of Kentucky by the Diocese of Lexington to be used as accommodations for outpatients at the Albert B. Chandler Medical Center. The facility is leased for one dollar per year.

University of Kentucky Student Agencies, Inc.—(1982)—Student operated business to give students part-time work to help meet college expenses. Ultimately, it will employ 500 students in areas of home care, publishing, advertising, sales, instruction, office services and catering. Plans are to receive commitments of \$75,000.

University of Kentucky Credit Union, Inc.—The purpose as stated in the Articles of Incorporation is to provide credit union services pursuant to KRS Chapter 10 for University of Kentucky and affiliated corporations' faculty and staff. The board is made up of members of the credit union. Members are depositors or shareholders. It is not controlled by the University. Credit union was formed in August, 1963. The credit union provides the



normal credit union activities exclusively for the University personnel. In addition, the credit union provides information services for university visitors in lieu of office space provided by the University. This arrangement is pursuant to a memorandum of understanding between the credit union and the University.

**The Kernel Press, Inc.**—Purpose is to provide a practical educational opportunity for students and to provide a daily newspaper for and about the University community. The Board is made up of thirteen members. It is self-perpetuating and members are selected from among journalism students. The organization was formed in 1971. The *Kernel* is a daily newspaper provided free of charge to the University community. The University provides space for production and delivery of the paper. Printing is contracted with a private firm by the corporation. Students provide the staff for the production of the paper. *Kernel* funds are handled by the Kernel Press, Inc. The terms of operation between the University and the *Kernel* are documented in the form of a memorandum of understanding.

**Ephraim McDowell Cancer Research Foundation**—This is a separate charity which is not subject to University of Kentucky control. Its purpose is to raise funds for the construction of a cancer research facility. The foundation receives no assistance from the university other than permission to post fund-raising signs on campus and to solicit donations on university property. Articles of Incorporation are not on file in the Secretary of State's office.

**Tobacco Research Institute and Tobacco Research Trust Fund**—The Tobacco Research Trust Fund is not a separate corporation. It was established pursuant to KRS 248.540. The Tobacco Research Trust Fund was created by the General Assembly in 1970 (KRS 248.510-248.570) and its funds are appropriated to the University of Kentucky Tobacco and Health Research Institute, an integral operating unit of the University of Kentucky. Pursuant to statute, the Trust Fund supports the research program of the University of Kentucky's Tobacco and Health Research Institute. The Tobacco Research Board submits an annual report by January 30 to the Legislative Research Commission as required by KRS 248.520.

The funds appropriated for tobacco research are audited as part of the annual audit of the University of Kentucky. The University of Kentucky Board of Trustees approves the annual budget of the Tobacco and Health Research Institute, thereby authorizing expenditures consistent with that proposal and with University of Kentucky and Commonwealth policy. The Board of Trustees has directed that the external auditors who have performed annual audits will be asked to perform a separate audit of this unit as part of all future audit contracts.

Fund Balance FY 81 (Trust Fund)

\$2.4 million

## UNIVERSITY OF LOUISVILLE FOUNDATION, INC.

### PURPOSE

The University of Louisville Foundation, Inc., is a separate corporation organized for the purpose of promoting the education, scientific, literary and cultural interests of the University.

### BOARD OF DIRECTORS

The membership of the Board consists of the Trustees of the University of Louisville plus a representative from the University's Board of Overseers, the President, the Vice President for Administration and the Vice President for University Relations of the University of Louisville.

## WHEN FORMED

The Foundation was created in June, 1970, prior to the entry of the University of Louisville into the State System of Higher Education.

## SCOPE OF ACTIVITY

The Foundation enters into contracts and obtains grants in its own name and solicits funds from alumni, corporations, foundations and individuals, which may be restricted by the donor or designated by the Board of Directors for specific purposes. The Foundation also administers the investment of its endowment and other funds.

Transfers of funds are made to the University covering expenditures made for designated or restricted University purposes as authorized by the Foundation.

## STAFFING

The foundation employs no staff.

## REVENUES

The primary sources of funds of the Foundation are gifts, grants, contracts, bequests and investment of income. Research and training grants and contracts are actively sought from federal, state, municipal and private sources. Efforts are made to generate gifts and bequests from alumni and friends of the University and from corporations and charitable foundations for enhancement of University programs. In addition, certain self-supporting auxiliary activities relating to the education and research efforts of the University are operated through the Foundation, such as certain continuing education programs and specialty clinics of the Health Sciences Center.

A very detailed system of accounts is maintained to assure expenditure of funds in accordance with the terms of the granting agencies and the restrictions placed on gifts by donors and for making required reports in an accurate and timely manner.

## DISBURSEMENTS

Expenditures relating to gifts, grants and contracts are processed through the University and funds totaling \$38,015,296 were transferred by the Foundation in 1980-81 to cover such expenditures. In addition, transfers of \$3.8 million were made by the Foundation to the University in 1980-81 for reimbursement of indirect costs relating to grants and contracts and for direct grants for general purposes that are recorded as general revenue of the University and transferred to the State Treasury. The only other disbursements made by the Foundation were to annuitants in the amount of \$31,774, in accordance with the terms of agreements entered into with donors, and restricted endowment income of \$17,282 transferred to the loan funds. Approximately 25% of the total University budget of \$140 million was provided by the Foundation.

The transfer (\$38 of the \$41 million) is recorded by the University as endowment investment income and "gifts, grants and contracts." This has been interpreted by the University to be private funds from a private source, which therefore need not be transferred to the Treasury. Further, the University expends these funds in most cases by the same rules and regulations used for general funds, but the private funds are not considered subject to state regulations.

A question can be raised that since not all funds going into the Foundation are private (education fees, for example), that perhaps the total transfer from the Foundation to the

University should not be considered private, and non-private funds (as defined by the AIC-PA) should not be held or collected by the Foundation at all.

As private funds, the expenditures regulations of KRS Chapters 45, 45A, and the related regulations do not apply as long as the funds remain in the Foundation.

Investment of endowment funds is managed by Trust Departments of Kentucky banks under policies established by the Board of Directors. In general, investments are restricted to securities traded on the major stock exchanges of the United States. Investment performance analysis is made periodically on each money manager by Merrill Lynch Pierce Fenner & Smith, Inc.

All operational expenses of the Foundation are handled by the University.

## TRANSFERS

Transfers are made to the University by accounting entry and not by contract.

## REPORTING

The accounts of the Foundation are audited from a financial standpoint annually by a private certified public accounting firm. Reports are made to the University, the Council on Higher Education, and the Department of Finance, Office for Policy and Management.

### FY 81

|                                |                |
|--------------------------------|----------------|
| Total Receipts                 | \$44.7 million |
| Total Expenditures & Transfers | 41.9 million   |
| Fund Balance                   | 46.6 million   |
| Transfer to University         | 41.9 million   |

## UNIVERSITY OF LOUISVILLE HOSPITAL, INC.

## PURPOSE

To operate a hospital for charitable, educational and scientific purposes.

## BOARD OF DIRECTORS

The Board of Trustees of the University of Louisville including the President of the University of Louisville serve as the Board of Directors of the Hospital Foundation.

The Board of Directors shall delegate authority to the Board of Governors. There are eighteen members of the Board of Governors: 12 appointed from the academic community and the community-at-large; two members appointed at the recommendation of the Mayor of Louisville; and two of the county judge-executives of Jefferson County; two members appointed upon the recommendation of the Louisville-Jefferson County Board of Health. The President of the University is chief executive officer of the corporation. Therefore, the university does have effective control of the Hospital Foundation.

## WHEN FORMED

The Articles of Incorporation were originally filed in September, 1977, and restated July, 1981. In 1978 the title to the hospital was given the university at no cost by the city, county and Board of Health. From 1978 to 1981, the hospital operated within the university and

the Foundation simply provided billing services for the professional component of certain services (pathology, radiology, emergency room). In July, 1981, the management of the hospital was transferred from the university to the University of Louisville Hospital, Inc. The hospital land, plant, and equipment remain the property of the university, and the university is still responsible for the liabilities related to land, buildings and equipment. In the fall of 1982, the new hospital will be occupied and the old will be phased out.

## SCOPE OF ACTIVITY

The corporation leases the hospital from the university at a rate appropriate to reimburse the university for its administrative costs in accounting and payroll. That amounted to approximately \$1,800 per month for FY 82. At the time of the transfer, the university advanced the hospital \$3,200,000. This is to be converted to an interest-bearing promissory note. The payment terms are not yet determined.

In October, 1981, the corporation obtained a \$1,500,000 line of credit from Liberty National Bank, backed by accounts receivable and a pledge of the University of Louisville Foundation.

The corporation contracted with Hyatt Management, Inc., to manage the hospital for a two-year period, beginning in July, 1981. The management fee was \$547,000 for the first year (September, 1981 to October 1982), and a similar amount for the second year. At the end of that period the corporation intends to lease the facility to a permanent managing entity.

## REVENUES

At this writing, there are no financial records of the University Hospital as a separate foundation since its first year of actual operation ended July 1, 1982. Before that time, it operated under the control and within the provisions of the university itself.

Revenues for the hospital, however, consisted of patient service revenues of \$23 million in FY 81, and non-operating revenue of \$8.5 million from the university, \$2 million from the City of Louisville, and \$2.7 million from Jefferson County.

## DISBURSEMENTS

Operating expenses for FY 81 totaled \$40 million, for an operating deficit of \$17 million. The net deficit (after the non-operating revenue) was \$3.8 million in FY 81.

## OTHER

New facilities were and are being built in 1980, 1981, and 1982 (a concentrated care building, ambulatory care building, and an institutional service center). Some of the funds for that construction (\$3.2 million) were bonded in 1978 through the State Property and Buildings Commission. Debt service to date had been funded by the Commonwealth. A special appropriation of \$2.4 million was provided in the 1978-80 biennium.

The City and County were to issue \$11.6 million in bonds to support the new project cost of \$71 million (originally planned at \$64 million), but as yet these have not been issued. Most of the funds (\$50.7 million) for the construction have come from federal revenues (revenue sharing, Hill-Burton, HEBA).

## STAFFING

Staff of Foundation

The foundation does not have a separate staff.

### Staff of Hospital

Nurses, secretaries, and other non-medical personnel are university employees.

FY 81

|                          |                                |
|--------------------------|--------------------------------|
| Total Receipts           | \$23 million plus \$13 million |
| Total Expenditures       | \$40 million                   |
| Fund Balance             | (\$3.8 million)                |
| Transfer from University | (\$3.2 million)                |

### CLINICAL SERVICE ASSOCIATION, INC.

#### PURPOSE

The association collects fees of doctors serving patients at the university hospital in their teaching capacity. Fees are collected from third party payors. The fees collected are remitted annually to the University of Louisville Foundation.

#### BOARD STRUCTURE

The Board is made up of members of the corporation. Members of the ten department heads and the Dean of the School of Medicine. It is not directly controlled by the university, but indirectly in that university employees make up the governing board.

#### WHEN FORMED

In 1967.

#### SCOPE OF ACTIVITY

The Clinical Services Association bills and collects all fees from third party payors for university physicians in their teaching capacity and as staff to the hospital. The organization employs an administrator and staff to maintain physician accounts. The corporation employs a firm of certified public accountants to prepare tax returns required of the association, prepare information for the administrator, audit the books of the association and give tax and accounting advice as requested.

The association has employed Management International, Inc., to actually prepare and submit medical billing claims. Management International is paid an eight percent commission for the collection service (for year ended January 31, 1981).

When the university took over the hospital in 1978, the university, through the U of L Hospital, also billed for the professional component on all radiology, pathology and emergency room services provided by doctors. These fees are transmitted to the association by the university.

#### STAFFING

The administrator serves as staff. Total administrative costs are subtracted from billings. This staff operates in Louisville, off campus.

## REVENUES

All revenues are billings for professional services of teaching physicians and interest income.

## DISBURSEMENTS

Expenditures are made for professional fees and collection commissions. The major disbursement is to the University of Louisville Foundation. The association also holds an investment portfolio of approximately \$3 million in certificates of deposit (\$2.6 million) and savings account.

## TRANSFERS

A transfer is made to the University of Louisville Foundation annually. The transfer is not made pursuant to a contract, but in the form of a gift given once per year.

FY 81

|                        |               |
|------------------------|---------------|
| Total Receipts         | \$3.2 million |
| Total Expenditures     | \$87,000      |
| Fund Balance           | \$3.0 million |
| Transfer to University | 0             |
| (to UL Foundation)     | \$2.3 million |

## UNIVERSITY OF LOUISVILLE MEDICAL SCHOOL FUND, INC.

### PURPOSE

The University of Louisville Medical School Fund is a private practice plan to permit the teaching physicians to earn income in addition to their teaching salary and to provide financial support for the University of Louisville School of Medicine. The objectives are to:

- (a) define the role and scope of professional practice activities;
- (b) strengthen relationships between the faculty and medical community;
- (c) provide the faculty remuneration commensurate with their academic and professional qualifications and activities;
- (d) encourage an appropriate degree of faculty involvement in patient care; and
- (e) provide additional financial support for the School of Medicine in the pursuit of excellence.

### BOARD STRUCTURE

The Board is made up of the University President, Vice President of Health Affairs, Chairman of the Board of Trustees of the University, two additional members of the Board of Trustees, appointed by the Chairman of the Board of Trustees, and three medical school faculty members elected by and from plan members. Therefore, the Medical School Fund is controlled by the University.

### WHEN FORMED

In 1975.

## SCOPE OF ACTIVITY

The Fund is an accounting entity set up separately from the University or ULF accounts to collect a portion of physicians' private practice income on a sliding scale percentage basis of total private practice income earned above teaching salary.

|          | Income Under<br>\$40,000/Year | Income Over<br>\$40,000/Year |
|----------|-------------------------------|------------------------------|
| \$ 1,000 | 0%                            | 0%                           |
| 4,000    | 5%                            | 10%                          |
| 10,000   | 10%                           | 15%                          |
| 10,000   | 15%                           | 20%                          |
| 10,000   | 20%                           | 25%                          |
| 15,000   | 25%                           | 30%                          |
|          | All over \$50,000<br>@ 35%    | All over \$75,000<br>@ 45%   |

## UNIVERSITY OF LOUISVILLE INSTITUTE FOR INDUSTRIAL RESEARCH, INC.

### PURPOSE

Research.

### BOARD STRUCTURE

Board of Trustees of University of Louisville. Control delegated to Board of Managers with seven members (Chairman, President of Corporation, Executive Vice President of Corporation, four members of Board of Trustees of University).

### WHEN FORMED

In 1945.

### SCOPE OF ACTIVITY

No activity since 1975.

### STAFFING

Executive Vice President is chief executive officer of the corporation. Treasurer keeps records on financial affairs.

## STUDENT PUBLICATIONS

Louisville Cardinal, Inc. (newspaper)  
Rodin, Inc. (*Thinker* Magazine)  
Minerva, Inc. (yearbook account in University of Louisville Foundation)  
Louisville Review, Inc. (magazine)

The above are all student organizations formed for semi-academic purposes. They receive no university funds, although they are permitted to operate on university property. They do receive student fees and the fees are handled for the organizations through the University of Louisville in agency accounts. The publications handle their own operational expenses outside the university.

## ALUMNI ASSOCIATIONS

University of Louisville Associates (1948), Inc.  
Law Alumni Foundation (1961), Inc.  
Speed Alumni Foundation (1967), Inc.—articles revoked in 1981.  
L Club Foundation, Inc. (1970)

The receipts of the above are handled through the University of Louisville Foundation. U of L Associates employs a secretary who is paid from their own funds. None of the others have staff. Receipts are collected through the U of L Foundation.

L Club Foundation is a dues-paying pep club with no offices on U of L property.

### UNIVERSITY OF LOUISVILLE ALUMNI ASSOCIATION

The University of Louisville Alumni Association exists for the purpose of developing and maintaining relations among alumni which will, it is hoped, lead to greater gift giving. The Alumni Association at U of L is not a separately incorporated body, but functions through the university. Funds are handled within an agency account specifically for the various alumni activities and groups.

### WESTERN KENTUCKY UNIVERSITY ALUMNI ASSOCIATION

#### PURPOSE

Stated: "to unite the alumni in closer fellowship, to interpret to the alumni and the public at large, the program of the institution, to further by all proper means the interest of the alumni and the university, and to advance in every way the general educational welfare of the Commonwealth."

#### BOARD STRUCTURE

Board is independent of university control.

##### Board of Directors

- Presidents of all Western Alumni Clubs
- Six members appointed by Executive Committee of the Board of Directors

##### Officers

- President (appointed by Executive Committee of Board of Directors)
- Executive Director (held by Director of Alumni Affairs)
- Secretary (held by a secretary of the Office of Alumni and Placement Activities)

##### Membership

- Active
- Associate (not allowed to hold office)
- Honorary (granted by unanimous vote of Executive Committee)



## WHEN FORMED

The present constitution was adopted in 1969. The Alumni Association has been in existence since the University was founded in 1906.

## SCOPE OF ACTIVITY

1. Encourage active alumni membership.
2. Organize and inform alumni.
3. Solicit alumni for gifts and donations.

## STAFFING

Staff members are university employees and are paid through the Alumni Affairs budget, which is within the university budget.

## FLOW OF FUNDS

### I. Revenues

- A. Revenues are generated through dues from members and interest income. However, alumni activities are also supported through the Office of Alumni Affairs, which is funded by state appropriations and other university revenue.
- B. Gift acceptance—"The AA currently combines their fund-raising efforts with the university's effort and gifts come to the university."
- C. There are no auxiliary operations.

### II. Disbursements

- A. Operating expenses were \$149,000 in FY 81, paid by the university. Alumni Association expenses are for public relations and development.
- B. Administrative and support processes are subject to the same state rules and regulations as Education and General Funds. However, dues collected from members are exempt from these regulations.
- C. Since the Alumni Association receives a portion of its money from the university, it is bound by the model procurement code and imprest cash guidelines for disbursement of operating budget support.
- D. The only investment of the AA is from the pooling of surplus university agency funds, which is then divided proportionately among all accounts.

## TRANSFERS

The Alumni Association operates both as an entity unto itself and as a part of the university's Alumni Affairs Office. The university provides a variety of services to the AA including office space, janitorial services, and facility maintenance. The total alumni operations are estimated to \$149,000 for 1980-81 and \$146,000 for 1981-82.

## REPORTING

The Chief Executive Officer reports to and coordinates activities with the Vice President for Student Affairs and the President of the Alumni Association. Separate audits are not performed but the Alumni Association account is included in the general university audit.

|                             |          |                             |
|-----------------------------|----------|-----------------------------|
| Total Revenues              | \$70,366 | (membership dues, interest) |
| Total Expenditures          | 66,497   |                             |
| Fund Balance                | 61,435   |                             |
| Disbursements to University | 0        |                             |

## WESTERN KENTUCKY UNIVERSITY HILLTOPPER HUNDRED CLUB, INC.

### PURPOSE

**Stated:** "to unite in an organized effort, the friends and alumni of Western Kentucky University who wish to express interest in the university and desire to serve it through their particular interest in WKU Athletics." (Section 1 of 4) Includes: football, basketball, baseball, track, tennis, golf, club and swimming.

### GOVERNING STRUCTURE

Board is independent of university control.

#### Board of Directors

- a. Eight members elected from at-large membership
- b. Alumni "W" Club President
- c. Founder of Hilltopper 100, Ted Hornback

#### Officers

- President
- Secretary-Treasurer

(Both are elected yearly with consent and approval of Athletic Director and Alumni "W" President)

Members are contributing alumni and friends to the University.

### WHEN FORMED

In August, 1965.

### SCOPE OF ACTIVITY

1. Solicit gifts and contributions to enhance athletics.
2. Encourage club membership and attendance at athletic events.

### STAFFING

The HH employs one paid full-time Executive Director and one paid part-time secretary.

## FLOW OF FUNDS

### Revenues

1. The primary source of revenue is alumni donations.
2. Receipts are very closely tied with the HH purpose; nearly all monies go for support of athletics.
3. There is no specific policy for gift acceptance. The bylaws mention membership dues and contributions, but do not otherwise restrict or delineate gift acceptance.
4. There are no auxiliary operations.

### Disbursements

1. The Club itself makes no capital purchases.
2. Operation expenses for the Hilltopper Hundred for 1980-81 equaled \$28,338.10. This breaks down into:

|                                |          |
|--------------------------------|----------|
| Salaries and benefits          | \$ 7,206 |
| Printing, postage, advertising | \$ 4,786 |
| Automobile expenses            | \$ 1,394 |
| Membership promotional costs   | \$13,410 |
| Office expenses                | \$ 687   |
| Other miscellaneous expenses   | \$ 855   |

The remaining \$82,727 was spent entirely on support of athletics. Operation expenses accounted for 26 percent of total expenditures, with 74% of revenues supporting athletics.

3. The only investment return was from a savings account. All agency surplus funds are pooled, invested and then divided proportionately between the accounts. There is no definite investment policy.
4. The Club makes no loans or scholarships.
5. The Hilltopper Hundred has a paid full-time Executive Director and a paid part-time secretary. They are both paid through the WKU payroll system so as to receive outside benefits (Blue Cross/Major Medical coverage) and the Club reimburses WKU.
6. The University provides the Club with office space in Diddle Arena and with some services which are not reimbursed. These services include "financial recordkeeping, purchasing, janitorial, grounds, and facility maintenance." Estimated value of these services is \$5,000.

### Transfers

1. The University does not transfer funds to the Club. The Club provides funds for the athletic program.
2. The University provides some services to the Club in exchange for monetary support of athletics. Services provided by the University to the Hilltopper Hundred which are reimbursed include "personal services and printing." Reimbursement is

made through regular University accounting procedures. No contracts are involved.

### Reporting

Reports are made annually to the Board of Directors. The bookkeeping procedures are audited annually when the University accounts are audited.

### Purchasing

The Hilltopper Hundred does not follow the current purchasing and imprest cash authority guidelines.

|  |           |
|--|-----------|
| Total Receipts (FY 81)                           | \$107,367 |
| Total Expenditures                               | \$107,824 |
| Total Fund Balance (FY 80)                       | \$ 3,699  |
| Total Disbursement to University (for athletics) | \$107,953 |

## WESTERN KENTUCKY UNIVERSITY COLLEGE HEIGHTS FOUNDATION, INC.

### PURPOSE

Stated: primarily to create a fund derived from voluntary gifts whereby all worthy and deserving students of the Western Kentucky University may be aided and assisted in their efforts to obtain an education, but who are unable to meet their necessary expenses.

### GOVERNING STRUCTURE

Board is independent of university control.

#### Board of Directors

- A. Twelve members
  - 1. One faculty member
  - 2. One Alumni Association member
- B. Board members elected by Board from a list of members.
- C. Quorum consists of a majority.
- D. Board is self-perpetuating and selects own members.

#### Officers

- A. President
- B. Secretary
- C. Treasurer (must be bonded)

#### Executive Committee

- A. Not less than three or more than five members

- B. President of College Heights automatic member
- C. Biannual elections
- D. Duties:
  - 1. in charge of donations to Fund;
  - 2. determine students to receive loans;
  - 3. take notes out on loans;
  - 4. pay staff and incidental expenses; and
  - 5. help manage and control the Fund.

#### WHEN FORMED:

In 1923.

#### SCOPE OF ACTIVITY

##### Operating Division

- a. may make loans to students
- b. operates college bookstore and self-service laundry.

##### Trust Division

- a. responsible for investments, scholarships and accepting gifts and donations

#### STAFFING

College Heights employs one full-time secretary, a treasurer, and a president. The treasurer and president are paid part-time staff. There is some paid part-time clerical and student staff. The University pays all staff other than the treasurer and the president in order that the employees can take advantage of University related benefits (e.g., Blue Cross, other medical insurance). College Heights then reimburses the University.

#### FLOW OF FUNDS

##### Revenues

- A. Revenues are generated through donations, bookstore sales, laundry receipts, endowments and interest from investments. About thirty percent of College Heights revenue last year was from gifts.
- B. Receipts are very closely tied to purpose—primarily to have loans and scholarship money available.
- C. The College Heights Articles of Incorporation state that “said Corporation is hereby authorized and empowered to receive bequests, donations of gifts or money or property from any person or persons who may desire to aid the work and further the aims of this Corporation.”

- D. College Heights has two auxiliary operations: a bookstore and a coin-operated laundry. All net bookstore and laundry profits are either reinvested or transferred to the trust account. The bookstore pays rent to WKU for space on the campus. (About \$40,000 in FY 82 and \$13,500 for FY 80). All employees are paid through the University to receive benefits such as health insurance—College Heights then reimburses the University for bookstore and laundry employees, plus one business office accountant. The laundry does not pay rent or expenses.

#### Disbursements

- A. Acquisition of capital items is limited to purchases necessitated by the bookstore and laundry facilities. College Heights does not purchase any other capital items (e.g., microscopes for classroom instruction).
- B. The Secretary/Treasurer is in charge of investments. She and the President of College Heights actually determine the amount to be invested. The total annual investment averages between \$2.5 million and \$3 million. The Trust Committee, made up of five board members, meets periodically to determine investments. The Constitution of College Heights Foundation states that suitable vehicles for investment include "government guaranteed" securities. College Heights invests in other notes, bonds, and securities of agencies secured by the federal government. The Foundation also owns some bank stock, real estate, mortgage notes and stock in several corporations. The major portion of those holdings was given as gifts to College Heights. The Foundation does not actively seek investments such as these. College Heights is also allowed by its Constitution to invest in buildings or other structural improvements on the University campus. All Trust Division monies to be invested are pooled; then the investments are made. Liquidity is not a major factor—money is only needed twice a year, when scholarships are due. The investments are scheduled to mature at those times.
- C. The College Heights Emergency Loan Program was turned over to Western in 1973. This was done to eliminate a duplication of effort between the Foundation and the University, and to help the Foundation remain small in staff size. The University had a loan program in existence and had a better grasp of the students' needs. College Heights provides the funding for the loan program (\$225,000 per year) that WKU now administers. The loans are short-term (1-2 semesters) emergency loans with a \$350 ceiling. Interest charged is six percent as stated in the Articles of Incorporation. Since its inception in 1923, the loan program has made over 34,000 loans, totaling \$3,061,500. Since 1962, the average loan amount equaled \$131. The Business Office handles bad debt collection. Only 1½-2% of loans have not been repaid, equaling \$30,000.

Scholarship recipients are chosen by a standing committee comprised of four administrative staff, four faculty members, and three students. College Heights does not determine students who will receive aid. However, some scholarships are restricted to specific counties or disciplines. The guidelines for selecting recipients were recently revised.

- D. College Heights employs one full-time secretary. The treasurer and executive director are part-time staff.
- E. Western has no set policy on recovery of indirect costs. The University provides office space and some services, such as janitorial and maintenance, to the Foundation. The rationale for this is that the Foundation indirectly benefits the University by the amount of money raised.

## Transfers

- A. No direct gift payments are made to the University; however, funds for the loan program are provided by the Foundation. The Foundation makes rental payments to the University for the bookstore only.
- B. Services and facilities provided by the University to College Heights include office space, janitorial services, grounds and facility maintenance, and utilities. The only service which is reimbursed is printing. There is no formal contracting procedure for payment. College Heights is billed through the regular University accounting system.

## Reporting

Monthly reports are made for both the Trust and the Operating Divisions of College Heights. These are presented to "operating personnel and the officers of the Foundation. Members of the Board receive annual reports, annual audits, and periodic reports from the officers, but they do not receive monthly financial statements."

| FY 80                       | Operating                     | Trust      |
|-----------------------------|-------------------------------|------------|
| Total Revenues              | \$2,137,670                   | \$ 508,403 |
| Total Expenditures          | 1,939,745                     | 305,180    |
| Fund Balances               | 843,941                       | 2,781,387  |
| Disbursements to University | Transfer to<br>Trust Division |            |

## WESTERN KENTUCKY UNIVERSITY CREDIT UNION, INC.

### PURPOSE

Stated: promote thrift among its members and to make loans to its members for provident and productive purposes . . .

### AUTHORITY

1. Chapter 290 of the Kentucky Revised Statutes.
2. Bylaws, articles of incorporation.

### WHEN FORMED

In 1963.

### GOVERNING STRUCTURE

Board is independent of University control.

#### Board of Directors

- A. Not fewer than five nor more than fifteen.
- B. Two or three-year terms.
- C. Elected from at-large membership of Credit Union.

## **Officers**

- A. President.
- B. Vice President.
- C. Secretary and Treasurer.
- D. Three-member Executive Committee.

## **Credit Committee**

- A. Not fewer than three nor more than seven.
- B. Must approve every loan.

## **Supervisory Committee**

- A. Three members.
- B. Audit books every three months.
- C. Require recognized agency to audit at close of fiscal year.

## **SCOPE OF ACTIVITY**

- 1. Accumulate capital by issuing shares to depositors.
- 2. Make loans to faculty and staff as specified in articles of incorporation.
- 3. Act as a depository.

## **REVENUES**

- 1. Shares bought by members.
- 2. Deposits.
- 3. Interest income.

## **LOCATION**

The Credit Union is housed in a university-owned building on the campus. The university provides the space and utilities free of charge.

## **DISBURSEMENTS**

Determined by Board of Directors, Credit and Supervisory Committee. Funds are invested according to Article XV of Bylaws and include loans, bonds, notes, obligations, preferred stock.

## **REPORTING**

Reporting requirements are set forth in bylaws, audited every three months and yearly. Other procedures determined by State Banking Commission.









